



RELIABLE QUALITY
AFFORDABLE INNOVATION

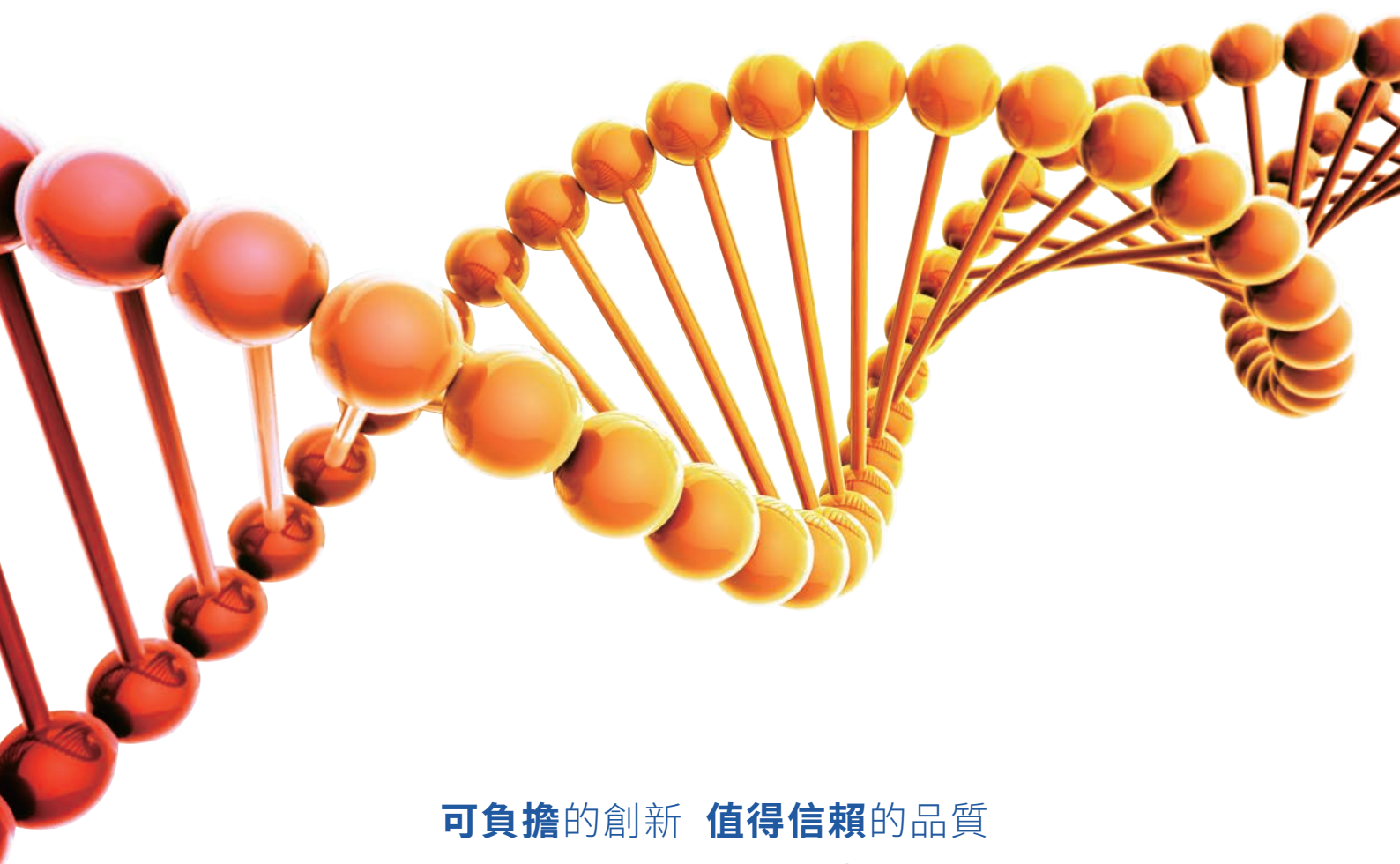
2022

ANNUAL REPORT

SHANGHAI HENLIUS BIOTECH, INC.
上海復宏漢霖生物技術股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code: 2696





可負擔的創新 值得信賴的品質

RELIABLE QUALITY AFFORDABLE INNOVATION



CONTENTS

Corporate Information	2
Chairman's Statement	4
Operation Highlights	6
Management Discussion and Analysis	15
Report of the Board of Directors	47
Report of the Board of Supervisors	71
Corporate Governance Report	72
Biographical Details of Directors, Supervisors and Senior Management	86
Independent Auditor's Report	94
Consolidated Statement of Profit or Loss	100
Consolidated Statement of Comprehensive Income	101
Consolidated Statement of Financial Position	102
Consolidated Statement of Changes in Equity	103
Consolidated Statement of Cash Flows	104
Notes to Financial Statements	106
Definitions	179

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTOR

Wenjie Zhang (*Chairman and Chief Executive Officer*)

NON-EXECUTIVE DIRECTORS

Qiyu Chen (陳啟宇)

Yifang Wu (吳以芳)

Xiaohui Guan (關曉暉)

Deyong Wen (文德鏞)¹

Zihou Yan (晏子厚)

Aimin Hui²

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tak Young So (蘇德揚)

Lik Yuen Chan (陳力元)

Guoping Zhao (趙國屏)

Ruilin Song (宋瑞霖)

SUPERVISORS

Rongli Feng (馮蓉麗) (*Chairman*)

Deli Kong (孔德力)

Yexing Yuan (袁曄星)³

Junhong Liu (劉俊宏)⁴

AUDIT COMMITTEE

Tak Young So (蘇德揚) (*Chairman*)

Lik Yuen Chan (陳力元)

Xiaohui Guan (關曉暉)

NOMINATION COMMITTEE

Wenjie Zhang (*Chairman*)

Guoping Zhao (趙國屏)

Ruilin Song (宋瑞霖)

REMUNERATION COMMITTEE

Ruilin Song (宋瑞霖) (*Chairman*)

Lik Yuen Chan (陳力元)

Yifang Wu (吳以芳)

STRATEGY COMMITTEE

Wenjie Zhang (*Chairman*)

Qiyu Chen (陳啟宇)

Yifang Wu (吳以芳)

Deyong Wen (文德鏞)¹

Zihou Yan (晏子厚)

Tak Young So (蘇德揚)

Ruilin Song (宋瑞霖)

Aimin Hui²

Notes:

1. Mr. Deyong Wen (文德鏞) was appointed as a non-executive Director and a member of the strategy committee on 28 July 2022.
2. Dr. Aimin Hui resigned as a non-executive Director and a member of the strategy committee on 28 July 2022.
3. Mr. Yexing Yuan (袁曄星) was appointed as a Supervisor on 1 January 2023.
4. Ms. Junhong Liu (劉俊宏) resigned as a Supervisor on 31 December 2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Lik Yuen Chan (陳力元) (*Chairman*)
Tak Young So (蘇德揚)
Ruilin Song (宋瑞霖)
Wenjie Zhang
Zihou Yan (晏子厚)

JOINT COMPANY SECRETARIES

Yan Wang (王燕)
Mei Ha Wendy Kam (甘美霞) (*Fellow of The Hong Kong Chartered Governance Institute*)⁵
Ching Ching Leung (梁晶晶) (*Fellow of The Hong Kong Chartered Governance Institute*)⁶

AUTHORISED REPRESENTATIVES

Wenjie Zhang
Mei Ha Wendy Kam (甘美霞)⁵
Ching Ching Leung (梁晶晶)⁶

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

9F, Innov Tower (Capitaland Building)
1801 Hongmei Road
Xuhui District
Shanghai
PRC

REGISTERED OFFICE IN CHINA

Room 330, Complex Building
No. 222, Kangnan Road
China (Shanghai) Pilot Free Trade Zone
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong⁷

H SHARES REGISTRAR

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

AUDITOR AND REPORTING ACCOUNTANTS

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

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong and U.S. laws:
Freshfields Bruckhaus Deringer
55th Floor, One Island East
Taikoo Place
Quarry Bay
Hong Kong

As to PRC law:
Fangda Partners
24/F, HKRI Centre Two
288 Shi Men Yi Road
Shanghai
PRC

STOCK SHORT NAME

HENLIUS

STOCK CODE

2696

COMPANY WEBSITE

www.henlius.com

Notes:

- Ms. Mei Ha Wendy Kam (甘美霞) was appointed as a joint company secretary and authorised representative on 18 August 2022.
- Ms. Ching Ching Leung (梁晶晶) resigned as a joint company secretary and authorised representative on 18 August 2022.
- Took effect from 15 August 2022.

CHAIRMAN'S STATEMENT



Wenjie Zhang
Chairman, Executive Director and Chief Executive Officer

Dear Shareholders,

On behalf of the board of directors, I am hereby pleased to present you the annual results of Henlius for the financial year ended 31 December 2022.

2022 was a landmark year for us. We moved forward against the headwind and made progress while keeping growth momentum. Our revenue hit a record high, exceeding RMB3.2 billion. We are proud to have successfully established an entire breadth of our value chain – R&D, production and commercialisation. With decade-plus endeavours, we have ripened into a Biopharma with a sizable scale and strong competitiveness. Up to date, our 5 products have been launched in China, 1 approved for marketing in overseas markets, 18 indications approved worldwide. We have thus benefited as many as over 350,000 patients.

During the year, we continued to gather pace in commercialisation and land ourselves in the top industry league in China. We have established a commercial team

of over 1,000 people and insisted on “bringing science and technology to the public” through commercialisation with our sharpened organisational capabilities. Our total sales revenue jumped to nearly RMB2.68 billion. In China, our core product HANQUYOU benefited more than 110,000 patients and registered a large increase in sales revenue, totalling nearly RMB1.7 billion. Its dual-specification (60mg+150mg) has led clinical practices in China. We also succeeded in launching our first innovative product HANSIZHUANG, with 3 indications MSI-H solid tumours, squamous non-small cell lung cancer (sqNSCLC) and extensive-stage small cell lung cancer (ES-SCLC) approved successively, making HANSIZHUANG the world's first anti-PD-1 mAb for the first-line treatment of SCLC. It has reached a sales revenue of over RMB300 million and benefited over 20,000 Chinese patients in the 9 months ever since its launch.

During the year, we continued to expand our footprint through collaboration, putting more Henlius products within the reach of patients worldwide. We have joined hands with international partners such as Organon, Abbott, Getz Pharma

and Eurofarma to go global and landed us among top players in China in terms of out-licensing. Our cooperation with Organon saw a record high in biosimilar licensing deal in the past five years with a potential revenue of US\$541 million, which was also an exceptional boost for Chinese biosimilars going global. Against the current backdrop, it is inevitable that pharmaceuticals should “go global”, with an initial focus on “global-bility” and a final aim to achieve “glocalisation”. After HANQUYOU's breaking into over 30 overseas markets, HANSIZHUANG is also going global steadily with the EU MAA accepted in 2023 and FDA BLA to be filed in 2024. We succeeded in granting overseas licenses for 5 commercialised products and a number of clinical products, expanding our presence in mainstream biologics market in Europe and the United States as well as emerging markets. We would rise to the next stage to compete in the global arena with globalisable products and organisations complemented by a localised business operation model.

During the year, we worked hard on the frontiers of innovation, remained target-oriented, and kept up high quality innovative research and development. With HANSIZHUANG as backbone, we worked on combined therapies for major cancer types and set ourselves apart in oncology immunotherapy. The outstanding achievement of HANSIZHUANG – the publishing on top medical journal JAMA, the initiation of the U.S. bridging study, the multi-centre clinical trials in full swing, the reception of Orphan Drug Designation (ODD) in the U.S. and the EU – all spoke volumes about the evolvement of our R&D innovation mechanism, which, we firmly believe, will continue to serve as a springboard for our sustained innovation. In 2022, we had 16 new INDs approved and proceeded with more than 30 clinical trials at full speed in China, the U.S., the EU, Australia and other countries, and actively explored the potential of innovative targets such as **BRAF, LAG-3, 4-1BB, GARP and OX40**. Innovation is the only winning formula for a biopharmaceutical company. We will keep catalysing novel solutions to tackle unmet clinical needs

with antibody as a core and build a more robust product portfolio comprising bispecific antibody, antibody drug conjugate (ADC), recombinant protein, etc.

During the year, we continued to strengthen our core competencies in production quality and technology and reached a new height in commercial production. Our second commercial manufacturing site – Songjiang First Plant passed China GMP certification and officially put HANQUYOU into commercial production with a capacity of 24,000 Litres, which doubled our total commercial production capacity to 48,000 Litres. We are also actively promoting the construction of Songjiang Second Plant, with a planned production capacity of 96,000 Litres for Phase I, which will further drive our growth with its unmatched advantages in production capacity and technology platform. The pandemic lockdown did not defer our sites from remaining operational and with the concerted efforts, we succeeded in shipping the first batch of HANSIZHAUNG and the first delivery of HANQUYOU from Songjiang First Plant at an extraordinary speed. Also, we continued to strengthen the sustainability of our supply chain, promote the localisation of key materials and enhance business flexibility.

A new era is dawning on us with different scenarios and challenges, and the only thing remains unchanged is change itself. We would like to thank all our investors and business partners for your support along the way, and all the employees for your hard work and perseverance in taking up your responsibilities. Thank you all for accompanying Henlius through thick and thin. Looking ahead, Henlius will continue to evolve by spearheading even greater innovation, driving productivity agenda and stepping up commercialisation. Together we will go above and beyond, grow ourselves into a leader in China's biopharmaceuticals and work together with the community to witness a better future for China's biopharmaceuticals!

OPERATION HIGHLIGHTS

I. FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 RMB' 000	2021 RMB' 000
Revenue	3,214,730	1,682,472
Cost of sales	(844,621)	(522,748)
Gross profit	2,370,109	1,159,724
Other income and gains	105,552	45,091
Selling and distribution expenses	(1,049,292)	(520,261)
Administrative expenses	(354,038)	(280,606)
Impairment losses on financial assets, net	(1,638)	(174)
Research and development expenses	(1,394,514)	(1,023,930)
Other expenses	(264,394)	(251,763)
Financial costs	(105,672)	(84,820)
Loss before tax	(693,887)	(956,739)
Income tax expense	(1,372)	(27,313)
Loss for the year	(695,259)	(984,052)

Total revenue was approximately RMB3,214.7 million for the year ended 31 December 2022, as compared to approximately RMB1,682.5 million for the year ended 31 December 2021. For the year ended 31 December 2022, such revenue was primarily from drug sales, R&D services provided to customers, and licence income.

Expensed R&D expenses increased by approximately RMB370.6 million to approximately RMB1,394.5 million for the year ended 31 December 2022, compared to approximately RMB1,023.9 million for the year ended 31 December 2021, primarily due to the other clinical trials of innovative drug candidates; the Group continued to increase investment in innovative R&D projects to accelerate the innovation and transformation of the Company.

Selling, marketing and business development expenses were approximately RMB1,049.3 million for the year ended 31 December 2022, primarily due to the successive commercialisation of core products and the constant sales expansion.

Total loss decreased by approximately RMB288.8 million to approximately RMB695.3 million for the year ended 31 December 2022, compared to approximately RMB984.1 million for the year ended 31 December 2021, primarily due to the successive commercialisation of core products and higher gross profit from the constant sales expansion.

II. FIVE YEARS' FINANCIAL SUMMARY

RESULTS

	2022	2021	2020	2019	2018
			RMB' 000		
Revenue	3,214,730	1,682,472	587,586	90,929	7,421
Loss before tax	(693,887)	(956,739)	(993,541)	(874,810)	(500,220)
Income tax expense	(1,372)	(27,313)	—	(655)	(4,569)
Loss for the year	(695,259)	(984,052)	(993,541)	(875,465)	(504,789)
Loss for the year attributable to owners of the parent	(695,259)	(984,052)	(993,541)	(875,465)	(493,686)

ASSETS AND LIABILITIES

	2022	2021	2020	2019	2018
			RMB' 000		
Total assets	8,924,308	7,172,844	6,439,176	5,899,817	3,094,790
Total liabilities	(7,287,976)	(4,876,088)	(3,240,404)	(1,899,402)	(1,292,241)
Net assets	1,636,332	2,296,756	3,198,772	4,000,415	1,802,549

OPERATION HIGHLIGHTS

BUSINESS HIGHLIGHTS:

1

HANQUYOU (trastuzumab for injection, European brand name: Zercepac®):

- HANQUYOU (150mg): completed the tendering process on the procurement platform and was included into the medical insurance procurement platform for all provinces in Mainland China in the first half of 2021.
- HANQUYOU (60mg): completed the tendering process on the procurement platform in 29 provinces and was included into the medical insurance procurement platform in all provinces in Mainland China as at the end of the Reporting Period.
- During the Reporting Period, HANQUYOU was approved for marketing in Australia, Cambodia, Singapore, Argentina and other countries, respectively.

2

HANSIZHUANG (serplulimab injection):

as at the end of the Reporting Period, HANSIZHUANG completed the tendering process on the procurement platform in 27 provinces in Mainland China.

- In March 2022, HANSIZHUANG for the treatment of adult patients with advanced unresectable or metastatic Microsatellite Instability-High (MSI-H) solid tumours that have failed to respond to the standard therapy was conditionally approved by the NMPA.
- In October 2022, the new drug application (NDA) for indication of HANSIZHUANG in combination with carboplatin and albumin-bound paclitaxel for the first-line treatment of unresectable locally advanced or metastatic squamous non-small cell lung cancer (sqNSCLC) was approved by the NMPA.
- In January 2023, the new drug application (NDA) for new indication of HANSIZHUANG in combination with carboplatin and etoposide for the first-line treatment of extensive-stage small cell lung cancer (ES-SCLC) was approved by the NMPA.
- In August 2022, the new drug application (NDA) for HANSIZHUANG in combination with chemotherapy (Cisplatin + 5-FU) for the first-line treatment of locally advanced/metastatic esophageal squamous cell carcinoma (ESCC) was accepted by the Center for Drug Evaluation of the NMPA.

3

HANLIKANG (rituximab injection):

- HANLIKANG (100mg/10ml): completed the tendering process on the procurement platform in all provinces and was included into the medical insurance procurement platform in 30 provinces in Mainland China and was procured by more than 70% of major hospitals as at the end of the Reporting Period.
- HANLIKANG (500mg/50ml): completed the tendering process on the procurement platform in 28 provinces and was included into the medical insurance procurement platform in 14 provinces in Mainland China as at the end of the Reporting Period.

4

HANDAYUAN (adalimumab injection):

completed the tendering process on the procurement platform and was included into the medical insurance procurement platform in all provinces in Mainland China as at the Latest Practicable Date.

5

HANBEITAI (bevacizumab injection):

completed the tendering process on the procurement platform in 24 provinces and was included into the medical insurance procurement platform in 30 provinces in Mainland China as at the end of the Reporting Period.

6

Business Expansion:

- In February 2022, the Group entered into an agreement with Getz Pharma, pursuant to which, the Group agreed to grant a license to Getz Pharma to commercialise HANDAYUAN in Pakistan, Philippines, Vietnam and other regions.
- In May 2022, the Company entered into an agreement with Eurofarma, pursuant to which, the Company agreed to grant a license to Eurofarma to commercialise HANLIKANG, HANQUYOU and HANBEITAI in Brazil and surrounding regions.
- In May 2022, the Company entered into an agreement with Abbott, pursuant to which, the Company agreed to grant a license to Abbott to commercialise HANLIKANG and HANQUYOU in Brazil.
- In June 2022, the Company entered into an agreement with Organon LLC, pursuant to which, the Company agreed to grant a license to Organon LLC and its affiliates to commercialise HLX11 (recombinant anti-HER2 domain II humanised monoclonal antibody injection) and HLX14 (recombinant anti-RANKL human monoclonal antibody injection) globally except for Mainland China, Hong Kong, Macau and Taiwan regions.
- In June 2022, the Company entered into a collaboration and license agreement with Palleon to reach a consensus for the global joint development and commercialisation of a Bifunctional HER2-Sialidase Fusion Protein and another Tumour-Related Target-Sialidase Bifunctional Fusion Protein.
- In December 2022, the Company and Fosun Pharma Industrial Development reached a business cooperation, pursuant to which, the Company agreed to grant a license to Fosun Pharma Industrial Development to commercialise HANSIZHUANG in the United States.

OPERATION HIGHLIGHTS

7

Efficient Advancement on Clinical Study Projects both Domestically and Internationally:

- Progress of international clinical study projects: HANSIZHUANG (serplulimab injection)
 - In March 2022, the phase 3 investigational new drug application (IND) of HANSIZHUANG in combination with chemotherapy (carboplatin/cisplatin-etoposide) and concurrent radiotherapy for the treatment of limited-stage small cell lung cancer (LS-SCLC) was approved by the NMPA. The first patient has been dosed in May 2022 in an international multi-centre phase 3 clinical study in Mainland China and the first patient in the United States has been dosed in January 2023. As at the Latest Practicable Date, such study was approved successively to commence in Australia, Spain, Germany and other countries.
 - In April and December 2022, HANSIZHUANG was granted the Orphan-drug Designation for the treatment of small cell lung cancer (SCLC) by the United States Food and Drug Administration (FDA) and the European Commission (EC), respectively.
 - In August 2022, the phase 1 clinical trial of HLX60 (recombinant humanised anti-GARP monoclonal antibody injection) in combination with HANSIZHUANG for the treatment of advanced or metastatic solid tumours was approved to commence in Australia, and the first patient has been dosed in December 2022.
 - In November 2022, the first patient has been dosed in a bridging study in the United States for HANSIZHUANG in combination with chemotherapy (carboplatin-etoposide) for first-line treatment of extensive-stage small cell lung cancer (ES-SCLC).
- Progress of international clinical study projects: other products
 - In February 2022, the first patient has been dosed in a phase 1 clinical trial of HLX301 (recombinant anti-PD-L1 and anti-TIGIT bispecific antibody injection) for the treatment of locally advanced or metastatic solid tumours in Australia.
 - In April 2022, the first patient has been dosed in an international multi-centre phase 3 clinical study of HLX11 (recombinant anti-HER2 domain II humanised monoclonal antibody injection) for the neoadjuvant therapy of HER2-positive and HR-negative early-stage or locally advanced breast cancer in Mainland China. As at the Latest Practicable Date, such study was approved to commence in Spain, Bulgaria, Poland and other countries.
 - In April 2022, the first patient has been dosed in an international multi-centre phase 3 clinical trial of HLX04-O (recombinant anti-VEGF humanised monoclonal antibody injection) for the treatment of wet age-related macular degeneration (wAMD) in Latvia, Australia and other countries. In February 2023, the first patient in the United States has been dosed in such study.
 - In April 2022, the phase 1 clinical trial of HLX20 (recombinant fully human anti-PD-L1 monoclonal antibody injection) conducted in patients with advanced solid tumours was completed in Australia, and HLX20 has demonstrated its good safety and tolerability in this trial.
 - In June 2022, the first patient has been dosed in an international multi-centre phase 3 clinical trial of HLX14 (recombinant anti-RANKL human monoclonal antibody injection) for the treatment of postmenopausal osteoporosis in women with high fracture risks in Mainland China. In July 2022, this international multi-centre phase 3 clinical trial was approved to commence in Australia, and the first patient in Australia has been dosed in November 2022.
 - In August 2022, the phase 2 investigational new drug application (IND) of HLX07 (recombinant anti-EGFR humanised monoclonal antibody injection) for the treatment of locally advanced or metastatic cutaneous squamous cell carcinoma (CSCC) was accepted by the United States Food and Drug Administration (FDA) and approved in September 2022.

7

Efficient Advancement on Clinical Study Projects both Domestically and Internationally:

- Progress of domestic clinical study projects: HANSIZHUANG (serplulimab injection)
 - In February 2022, the phase 2 investigational new drug application (IND) of HANSIZHUANG in combination with HLX07 (recombinant anti-EGFR humanised monoclonal antibody injection) and HANBEITAI for the first-line treatment of unresectable or metastatic hepatocellular carcinoma (HCC) was accepted by the NMPA and approved in April 2022.
 - In April 2022, the phase 1 investigational new drug application (IND) of HLX26 (recombinant anti-LAG-3 humanised monoclonal antibody injection) in combination with HANSIZHUANG for the treatment of advanced/metastatic solid tumours or lymphomas was approved by the NMPA. In August 2022, the first patient has been dosed in a phase 1 clinical trial of HLX26 in combination with HANSIZHUANG for the treatment of advanced/metastatic solid tumours in Mainland China. In February 2023, the phase 2 investigational new drug application (IND) of HLX26 in combination with HANSIZHUANG and chemotherapy for the first-line treatment of advanced non-small cell lung cancer (NSCLC) was accepted by the NMPA.
 - In May 2022, the phase 3 clinical study of HANSIZHUANG in combination with chemotherapy (Cisplatin + 5-FU) for the first-line treatment of patients with locally advanced/metastatic esophageal squamous cell carcinoma (ESCC), met the co-primary endpoints of progression-free survival (PFS) and overall survival (OS) in a planned interim analysis, evaluated by the Independent Data Monitoring Committee.
 - In June 2022, the enrollment of subjects was completed in the phase 3 clinical trial of HANSIZHUANG in combination with HANBEITAI and in combination with chemotherapy (carboplatin-pemetrexed) for the first-line treatment of advanced non-squamous, non-small cell lung cancer (nsNSCLC) in Mainland China.
 - In August 2022, the phase 2 investigational new drug application (IND) of HLX22 (anti-human epidermal growth factor receptor-2 (HER2) humanised monoclonal antibody injection) in combination with HANSIZHUANG and in combination with the standard therapy (Trastuzumab in combination with chemotherapy) for the first-line treatment of locally advanced/metastatic gastric cancer (GC) was accepted by the NMPA and approved in October 2022.
 - In November 2022, the phase 1b/2 investigational new drug application (IND) of HLX208 (BRAF V600E inhibitor) in combination with HANSIZHUANG and its combination therapy for the treatment of BRAF V600E or BRAF V600 mutation-positive advanced solid tumours was approved by the NMPA. In February 2023, the first patient has been dosed in a phase 1b/2 clinical trial of HLX208 (BRAF V600E inhibitor) in combination with HANSIZHUANG for the treatment of non-small cell lung cancer (NSCLC) in Mainland China.
- Progress of domestic clinical study projects: Other products
 - In January 2022, the phase 1b/2 investigational new drug application (IND) of HLX208 (BRAF V600E inhibitor) monotherapy or in combination therapy for the treatment of BRAF V600E or BRAF V600 mutation-positive advanced solid tumours was approved by the NMPA. In the same month, the first patient has been dosed in the phase 2 clinical trial of HLX208 (BRAF V600E inhibitor) for the treatment of adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD) with BRAF V600E mutation in Mainland China. In April 2023, HLX208 (BRAF V600E inhibitor) for the treatment of adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD) with BRAF V600E mutation has been officially granted the Breakthrough Therapy Designation by the Center for Drug Evaluation of the NMPA.
 - In January 2022, the investigational new drug application (IND) of HLX35 (recombinant humanised anti-EGFR and anti-4-1BB bispecific antibody injection) for the treatment of advanced malignant solid tumours was approved by the NMPA. In June 2022, the first patient has been dosed in the phase 1 clinical trial of HLX35 for the treatment of advanced or metastatic solid tumours in Mainland China.

OPERATION HIGHLIGHTS

7

Efficient Advancement on Clinical Study Projects both Domestically and Internationally:

- In March 2022, the investigational new drug application (IND) of HLX301 (recombinant anti-PD-L1 and anti-TIGIT bispecific antibody injection) for the treatment of advanced tumours has been approved by the NMPA. In July 2022, the first patient has been dosed in the phase 1/2 clinical trial of HLX301 for the treatment of locally advanced/metastatic solid tumours or lymphomas in Mainland China.
- In June 2022, the phase 1 investigational new drug application (IND) of HLX53 (anti-TIGIT Fc fusion protein) for the treatment of advanced solid tumours or lymphomas was approved by the NMPA, and the first patient has been dosed in such trial in December 2022.
- In September 2022, the phase 1 clinical study of HLX22 (anti-human epidermal growth factor receptor-2 (HER2) humanised monoclonal antibody injection) was completed in Mainland China, which has demonstrated the good safety and tolerability of HLX22 in the phase 1 clinical trial conducted in patients with HER2 overexpressing advanced solid tumours.
- In October 2022, the phase 1 investigational new drug application (IND) of HLX60 (recombinant humanised anti-GARP monoclonal antibody injection) for the treatment of solid tumours and lymphomas was approved by the NMPA, and the first patient has been dosed in such trial in December 2022.
- In February 2023, the first subject has been dosed in the phase 1 clinical trial of HLX15 (recombinant anti-CD38 human monoclonal antibody injection) in healthy Chinese male subjects.
- In February 2023, the phase 1b/2 clinical study of HLX07 (recombinant anti-EGFR humanised monoclonal antibody injection) in combination with chemotherapy was completed in Mainland China, which has demonstrated the good safety and tolerability of HLX07 in the phase 1b/2 clinical study in patients with advanced solid tumours.

8

Efficient Advancement for Pre-Clinical Development Projects:

The Group attached great importance to the pre-clinical project pipeline, multiple global clinical trial approvals for 9 products and 5 combination therapies were granted during the Reporting Period, projects covering targets including EGFR×4-1BB, PD-L1×TIGIT, GARP, LAG-3, TIGIT etc., of which the investigational new drug applications (IND) were successfully approved and have entered into clinical study stage. In addition, in January 2023, the investigational new drug application (IND) of HLX51 (recombinant anti – OX40 humanised monoclonal antibody for injection) for the treatment of advanced/metastatic solid tumours and lymphomas was accepted by NMPA and was approved in March 2023.

9

Orientation toward Clinical Value and Injecting Impetus toward the Pipeline:

With clinical-value-oriented early study, coordinated with early R&D teams from China and the U.S., based on new discovery driven by deep data and accelerated bio-computing of molecular design technology, the Group has been assiduously cultivating the field of solid tumours, and further expanding into non-oncology disease areas including metabolic, cardiovascular, renal and nervous system disease, and rare diseases where clinical needs are barely met, so that impetus toward the pipeline can be injected. Being independently innovated, the Group has carried out cooperation with external cutting-edge, leading scientific research institutions, and introduced Tumour-Related Target-Sialidase Bifunctional Fusion Protein, ADC platform technology during the Reporting Period, in order to early incubate the cutting-edging ground-breaking science and technologies, bolstering the strength of independent innovation efficiently. As at the Latest Practicable Date, the Group has 57 molecules (including 10 biosimilar drugs and 47 innovative drugs) in its pipeline, with the form of drug covering monoclonal antibody, bispecific antibody, polyclonal antibody, antibody-drug conjugates(ADC), small molecule-drug conjugates and recombinant protein, etc.

10

Biopharmaceutical Industrialisation Base Layout with International Standards and High Cost-Efficiency:

The Group has been with a total commercial production capacity of 48,000L (including the commercial production capacity of 24,000L of Xuhui Facility, the commercial production capacity of 24,000L of Songjiang First Plant). During the Reporting Period, Songjiang First Plant has been approved to adopt the optimized new production process to carry out domestic commercial production of HANQUYOU, and it has also passed certification by Qualified Person (QP) from the EU. Songjiang First Plant and its supporting quality management system met the requirements of the EU's GMP regulations, and products manufactured by it such as HLX04-O, HLX11 and HLX14 and others were able to carry out clinical trials in Europe. During the Reporting Period, the construction, installation of process equipment, the adjustment of public system and primary liquid production line of the two main production buildings of first and second stage for the Phase I project of Songjiang Second Plant were completed in the second half of 2022, and the QC lab was put into use. For the third stage of Phase I project of the Songjiang Second Plant, piling works, the construction of building envelope and the slab foundation were completed, and purchase procedures for large equipments was kicked off.

For details of the above, please refer to this announcement and (if applicable) the Company's previous announcements published on the websites of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company.

OPERATION HIGHLIGHTS

IV. OUR PRODUCT PIPELINE



- Innovative mAb
- Innovative BsAb
- Innovative fusion protein
- Biosimilar mAb
- ADC drugs
- Innovative small molecules
- US bridging study
- BLA accepted by FDA
- Global multi-centre clinical trial
- MAA validated by the EMA
- The first Chinese mAb approved in both China and the EU

The core products of the Company including HANSIZHUANG, HANLIKANG, HANQUYOU, HANDAYUAN and HANBEITAI are all approved for marketing.

- IND approved in China, the United States, the EU, Australia and other countries and regions; approved for marketing by NMPA in March 2022; Business partners: KGBio and Fosun Pharma;
- The first domestic biosimilar; Business partners: Fosun Pharma, Farma De Colombia, Eurofarma and Abbott;
- The first rituximab approved for the treatment of the indication in China;
- Approved for marketing in over 30 countries, including China, the United Kingdom, Germany, France and Australia, with trade name registered in Europe: Zercept®; trade name registered in Australia: Tuzucip® and Trastucip®; business partners: Accord, Cipla, Jacobson, Elea, Eurofarma and Abbott;
- Business partners: Wanbang Biopharma and Getz Pharma;
- Business partner: Eurofarma;
- IND approved in China, Australia, the United States, Singapore, the EU and other countries and regions; Business partner: Essex;
- IND approved in China and the EU; Business partner: Organon;
- IND approved in China, the EU and Australia; Business partner: Organon;
- IND approved in China and the United States;
- Commercialisation rights obtained in China including Hong Kong, Macao and Taiwan region;
- IND approvals obtained in Australia;
- Business partner: Binacea;
- IND approved in China and Australia;
- Business partner: Shanghai Jingze

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

As part of our commitment to provide affordable and high-quality biomedicines for patients worldwide, the Group has been dedicated to the continuous innovation and layout of the three major segments of R&D, production and commercialisation. During the Reporting Period, we have worked to promote the efficient development of the global commercialisation of product pipeline and implement production capacity deployment for the biomedicines with high economic benefit based on international standards. With great achievements in clinical development and drug registration of pipeline products, the Group completed the transformation from Biotech model to Biopharma model that is more scaled up and highly competitive in the market. As at the Latest Practicable Date, 3 indications of HANSIZHUANG, the first self-developed innovative monoclonal antibody, have been successively approved for marketing, which currently are used for the treatment of MSI-H solid tumours, squamous non-small cell lung cancer (sqNSCLC) and extensive-stage small cell lung cancer (ES-SCLC). During the Reporting Period, with a great deal of effort from the Group's in-house commercialisation team, HANQUYOU and HANSIZHUANG have achieved impressive sales results; HANLIKANG, HANDAYUAN and other products have provided stable income when partners continued to facilitate; several products have reached global cooperation including Abbott, Organon LLC and other well-known enterprises, and the launch of domestic sales and internationalised layout has been accelerated. During the Reporting Period, the Group made significant progress in 17 clinical trials, and received approvals for multiple clinical trials worldwide for 9 products and 5 combination therapies, fully demonstrating the Group's strength in innovation and R&D.

As at the Latest Practicable Date, 5 products (18 indications) of the Group have been successfully marketed in Mainland China, 1 product has been successfully marketed in Europe and Australia and other counties/regions. The new drug application (NDA) for the forth indication (esophageal squamous cell carcinoma (ESCC)) of HANSIZHUANG submitted in Mainland China has been accepted; the marketing authorisation application (MAA) for the indications of extensive-stage small cell lung cancer (ES-SCLC) was also validated in EU; and the biologics license application (BLA) of HANQUYOU has been accepted in the U.S..

(I) STRONG GLOBAL PRODUCT COMMERCIALISATION CAPABILITY

During the Reporting Period, the Group actively implemented the concept of excellent commercialisation bearing patients' needs in mind. Our commercialisation team comprises of five major segments, namely market promotion, channel management, pricing and market access, domestic sales and strategic planning, covering the whole process of commercialisation, in order to achieve continuous growth in sales scale of products. As at the end of the Reporting Period, the Group has over 1,000 people of commercialisation team, and nearly doubled comparing with that of the end of 2021. Following the launch of HANLIKANG, the first monoclonal antibody approved in China in accordance with the Guidelines for Biosimilars in 2019, several core products of the Group such as HANQUYOU, HANDAYUAN, HANBEITAI and HANSIZHUANG have successively been approved for marketing in Mainland China and put forward its commercialisation in a well-regulated way. During the Reporting Period, the Group has also established cooperation with several internationally renowned partners for HANLIKANG, HANQUYOU, HANDAYUAN, HANBEITAI, HLX11 (recombinant anti-HER2 domain II humanised monoclonal antibody injection), HLX14 (recombinant anti-RANKL human monoclonal antibody injection) and HANSIZHUANG, obtaining impressive achievements in internationalization for self-developed products.

MANAGEMENT DISCUSSION AND ANALYSIS

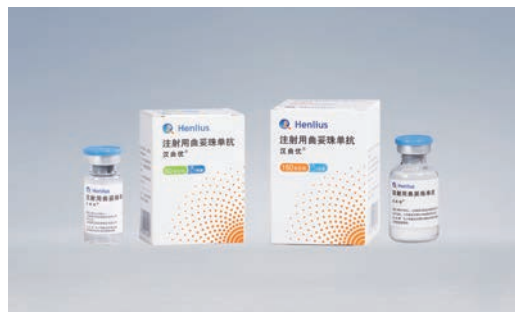
International commercialisation process of HANQUYOU (trastuzumab for injection, European brand name: Zercepac®) (a therapeutic product for breast cancer and gastric cancer)

- Commercial sales of HANQUYOU in Mainland China

HANQUYOU is the core product of the Group in the field of anti-tumour therapy, and also the first product sold and promoted by the Group's in-house commercialisation team in Mainland China. As at the end of the Reporting Period, we hired more than 550 professional marketing personnel for the sales of HANQUYOU, with an aim to penetrate into the Mainland China market with efficient execution capacity. HANQUYOU (150mg) was launched for commercial sales since August 2020, and completed the tendering process on the procurement platform and was included into the medical insurance procurement platform for all provinces in Mainland

China in the first half of 2021. Since its approval for marketing in August 2021, HANQUYOU (60mg) was included into the medical insurance procurement platform in all provinces in Mainland China and completed the tendering process on the procurement platform in 29 provinces as at the end of the Reporting Period. In addition to the efficient market and access providing a strong foundation for the overall sales growth of HANQUYOU, the flexible dose portfolio of 150mg and 60mg also brings personalised and more economical treatment options for patients with different weight ranges. It can also enhance clinical safety with its "ready-to-use" feature. During the Reporting Period, the Group cooperated with relevant enterprises in respect of physician education, medical big data, HER2 testing, innovative payment, patient management and education and has gained a good market reputation in the construction of diagnosis and treatment ecosystem for patients with HER2-positive breast cancer and gastric cancer, and conducted care action on pandemic response for patients with patients education organization during Shanghai's pandemic lockdown, to do its best to care for patients in such a special time.

In April 2022, drug substance west line and east line (with a production capacity of 24,000L), drug product line and packaging line for the production of HANQUYOU in Songjiang First Plant passed the GMP compliance inspection, indicating that Songjiang First Plant has a quality management system that meets the requirements of China's GMP regulations. In May 2022, HANQUYOU was approved by the NMPA to change its production site, improve its production process and expand the scale of preparation, and Songjiang First Plant was approved to adopt enhanced new production techniques to conduct the commercial production of HANQUYOU in Mainland China. So far, the full capacity of Songjiang First Plant of 24,000L can be used for the commercial production of HANQUYOU, providing strong support for the production increase of HANQUYOU.



MANAGEMENT DISCUSSION AND ANALYSIS

– Commercialisation process of HANQUYOU in Europe, Australia, U.S. and other places

- Based on the Company's cooperation with Accord, the business partner, HANQUYOU (European trade name: Zercepac®) was approved for marketing in the EU in July 2020. As the first “Chinese” monoclonal antibody biosimilar drug approved for sale in the EU, Zercepac® has been sold in United Kingdom, Germany, Spain, France, Italy, Switzerland and approximately 20 European countries.



- In June 2022, trastuzumab for injection granted by the Company to its business partner PT Kalbio Global Medika for commercial purpose in part of Southeast Asian countries was approved for marketing in Cambodia under the brand name of Hertumab®. In October 2022, trastuzumab for injection was approved for marketing in Singapore under the brand name of Trazher®.
- In July 2022, trastuzumab for injection granted by the Company to its business partner Cipla Limited for commercial purpose in Australia and other regions was approved for marketing in Australia under the brand name of Tuzucip® and Trastucip®.
- In October 2022, trastuzumab for injection granted by the Company to its business partner Laboratorio ELEA Phoenix S.A. (The license right was transferred by original licensee Mabxience Research, S.L. to Laboratorio ELEA Phoenix S.A.) for commercial purpose in Argentina and other regions was approved for marketing in Argentina under the brand name of Dafex®.
- In February 2023, the biologics license application (BLA) for trastuzumab for injection for (1) the adjuvant treatment for HER2 overexpressing breast cancer; (2) the treatment for HER2 overexpressing metastatic breast cancer; and (3) the treatment for HER2 overexpressing metastatic gastric or gastroesophageal junction adenocarcinoma submitted by the affiliates of the Company's business partner Intas, was accepted by the United States Food and Drug Administration (FDA).

HANQUYOU is a trastuzumab developed and manufactured by the Group in accordance with relevant laws and regulations of China and the EU on biosimilars. Focused on HANQUYOU, the Group prospectively has drawn up an internationally commercialised layout, cooperated with many world-class biomedicine enterprises to fully boost market share in the U.S., Canada, Europe and many emerging countries and markets, covering approximately over 100 countries and regions around the world. As a representative domestic biologic to “go global”, HANQUYOU has successfully been approved for marketing in over 30 countries and regions.

MANAGEMENT DISCUSSION AND ANALYSIS

Three indications of HANSIZHUANG (serplulimab injection) were approved for marketing, currently using for the therapy for the MSI-H solid tumours, squamous non-small cell lung cancer(sqNSCLC) and extensive-stage small cell lung cancer (ES-SCLC)

In March 2022, the first indication of PD-1 monoclonal antibody product HANSIZHUANG, a core innovative product self-developed by the Group, was approved for marketing. Following that, the Company immediately started the relevant commercialisation process. Despite the special period of epidemic containment at that time, the first prescription came into use and the first batch of shipments was successfully delivered in Mainland China within about a week after the approval. As at the end of the Reporting Period, HANSIZHUANG has completed the tendering process on the procurement platform in 27 provinces in Mainland China. The professional marketing personnels, who are capable of professional communication and have considerable experience of marketing in tumours market, were approximately 400 after expansion. Covering over 23,000 professional doctors specializing in treating lung cancer, gastrointestinal tumour and other diseases of thousands of domestic hospitals, the Company adopts the meticulous management model to thereof, and successfully made HANSIZHUANG a competitive PD-1/PD-L1 product focusing on small cell lung cancer through effective differentiated competitive strategy within nine months after the marketing. As at the Latest Practicable Date, HANSIZHUANG has obtained the marketing approval for the three indications, and the new drug application (NDA) for another indication was received, strongly supporting continued deep expansion of commercialisation and ensuring more patients benefit from HANSIZHUANG.



- First indication approved: Microsatellite Instability-High (MSI-H) solid tumours, covering a wide range of patient groups

In March 2022, PD-1 monoclonal antibody product HANSIZHUANG, a core innovative product self-developed by the Group, for the treatment of adult patients with advanced unresectable or metastatic Microsatellite Instability-High (MSI-H) solid tumours that have failed to respond to the standard therapy was conditionally approved by the NMPA, offering new immunotherapy option for patients. The indication is screened by specific MSI-H tumour markers rather than by cancer type, covering a wide range of patient groups.

- Second indication approved: locally advanced or metastatic squamous non-small cell lung cancer (sqNSCLC), benefiting more patients

In October 2022, the new drug application (NDA) for indication of HANSIZHUANG in combination with carboplatin and albumin-bound paclitaxel for the first-line treatment of unresectable locally advanced or metastatic squamous non-small cell lung cancer (sqNSCLC), has been approved by the NMPA. Squamous non-small cell lung cancer (sqNSCLC) is the second subtype of non-small cell lung cancer (NSCLC), and has a great demand for clinical drugs. It's expected that more patients will benefit from the marketing for such indication in clinical practices.

MANAGEMENT DISCUSSION AND ANALYSIS

- Third indication approved: extensive-stage small cell lung cancer (ES-SCLC), the first monoclonal antibody drug targeting PD-1 approved for the first-line treatment of extensive-stage small cell lung cancer (ES-SCLC) around the world

In January 2023, the new drug application (NDA) for new indication of HANSIZHUANG in combination with carboplatin and etoposide for the first-line treatment of extensive-stage small cell lung cancer (ES-SCLC) has been approved by the NMPA. Accordingly, HANSIZHUANG has become the first monoclonal antibody drug targeting PD-1 approved for the first-line treatment of extensive-stage small cell lung cancer (ES-SCLC) around the world, making breakthroughs in the treatment of lung cancer. During the Reporting Period, the oral presentation of results of a phase 3 study of the indication was made by principal investigator at the annual meetings of American Society of Clinical Oncology (ASCO) and European Society for Medical Oncology Asia (ESMO Asia) Congress, respectively in 2022, and the results were published online in The Journal of American Medical Association (JAMA, impact factor of 157.3), one of the top four medical journals in the world. As the first monoclonal antibody targeting PD-1 for the first-line treatment of extensive-stage small cell lung cancer (ES-SCLC) with positive results around the world, it attracted much attention from and was highly recognized by the global academic communities. In March 2023, the marketing authorisation application (MAA) of the indication submitted by the Group was validated by the European Medicines Agency.

- Fourth indication submitted: esophageal squamous cell carcinoma (ESCC), further covering the field of gastrointestinal tumours

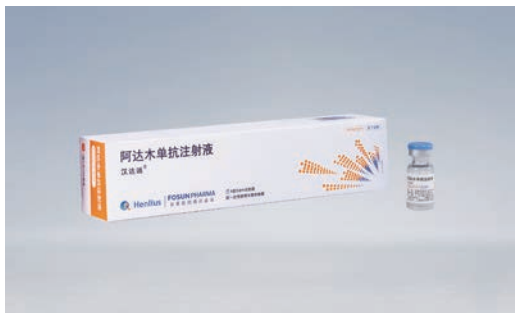
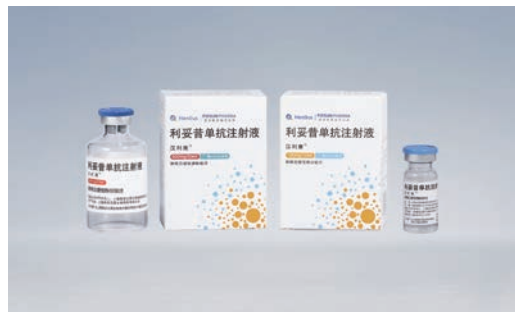
In May 2022, the phase 3 clinical study of HANSIZHUANG in combination with chemotherapy (Cisplatin + 5-FU) as a first-line treatment for locally advanced/metastatic esophageal squamous cell carcinoma (ESCC), met the co-primary endpoints of progression-free survival (PFS) and overall survival (OS) in a planned interim analysis, evaluated by the Independent Data Monitoring Committee. In August 2022, the new drug application (NDA) of this indication was accepted by the Centre for Drug Evaluation of the NMPA and was the fourth indication for HANSIZHUANG submitted in Mainland China.

The results of the phase 3 clinical study of indication successively were presented orally at annual meetings of the Chinese Society of Clinical Oncology (CSCO), the European Society for Medical Oncology Asia (ESMO Asia) Congress, and were published officially in Nature Medicine (Impact factors: 87.241), the international prestigious publication in February 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Steady progress of the commercial sales of HANLIKANG (rituximab injection) and HANDAYUAN (adalimumab injection) (therapeutic products for hematological tumours and autoimmune diseases) contributed to the continuous revenue

Jiangsu Fosun, a subsidiary of Fosun Pharma, the controlling shareholder of the Company, was responsible for the domestic commercial sale of HANLIKANG. As the first monoclonal antibody drug approved for marketing under the Guidelines for Biosimilars in China in 2019, HANLIKANG has been approved for marketing for three years, and has benefited approximately 160,000 patients in total in China. As at the end of the Reporting Period, the specifications of HANLIKANG covered 100mg/10ml and 500mg/50ml. HANLIKANG (100mg/10ml) has been included into the medical insurance procurement platform in 30 provinces in Mainland China, and has completed the tendering process on the procurement platform in all provinces, and was procured by more than 70% of major hospitals; HANLIKANG (500mg/50ml) has completed the tendering process on the procurement platform in 28 provinces and was included into the medical insurance procurement platform in 14 provinces in Mainland China. In February 2022, HANLIKANG for the treatment of the innovative indication of rheumatoid arthritis (RA) was approved for marketing, which has advantages of less dosing frequency and lasting medicine effect and is expected to improve patients' compliance and enhance patients' quality of life as well as alleviate their medical burden. Accordingly, as at the end of the Reporting Period, HANLIKANG's indications approved for marketing were further expanded to the field of autoimmune diseases on the basis of covering all the indications of the original drug approved in Mainland China in the field of hematology oncology. The implementation of both types of indications will cover more patient groups.



Jiangsu Wanbang, a subsidiary of Fosun Pharma, the controlling shareholder of the Company, was responsible for the domestic commercial sale of HANDAYUAN. HANDAYUAN is the third product of the Group marketed in Mainland China, it has been approved for the indications of rheumatoid arthritis, ankylosing spondylitis, psoriasis and uveitis in Mainland China. As at the Latest Practicable Date, HANDAYUAN has completed the tendering process on the procurement platform and was included into the medical insurance procurement platform in all provinces in Mainland China.



Additionally, as at the end of the Reporting Period, HANBEITAI, the fourth biosimilar product of the Group approved for marketing, had covered metastatic colorectal cancer, advanced, metastatic or recurrent non-small cell lung cancer, recurrent glioblastoma, cervical cancer, as well as indications of epithelial ovarian cancer, fallopian tube cancer or primary peritoneal cancer. The Group began to establish a professional sales team for HANBEITAI and made market layout accordingly during the Reporting Period. As at the end of the Reporting Period, HANBEITAI has been included into the medical insurance procurement platform in 30 provinces and has completed the tendering process on the procurement platform in 24 provinces in Mainland China.

(II) GREAT SUCCESS IN THE LICENSING COOPERATION DURING THE REPORTING PERIOD

During the Reporting Period, by adhering to the internationalisation strategy, the Group established commercial cooperation globally with international partners, such as Abbott and Organon LLC in respect of HANLIKANG, HANQUYOU, HANDAYUAN, HANBEITAI, HLX11(recombinant anti-HER2 domain II humanised monoclonal antibody injection), HLX14 (recombinant anti-RANKL human monoclonal antibody injection) and HANSIZHUANG, resulting in an upfront payment of over RMB1.5 billion throughout the year.

- In February 2022, the Group has entered into an agreement with Getz Pharma (Private) Limited and its affiliates, Getz Pharma, pursuant to which, the Group agreed to grant a license to Getz Pharma to commercialise HANDAYUAN in Pakistan, Philippines, Vietnam and other regions. According to the agreement, the Company is entitled to receive an upfront payment of \$500,000, and a milestone payment of up to \$7.5 million.
- In May 2022, the Company entered into an agreement with Eurofarma, pursuant to which, the Company agreed to grant a license to Eurofarma to commercialise HANLIKANG, HANQUYOU and HANBEITAI in Brazil and surrounding regions. According to the agreement, the Company is entitled to receive an upfront payment of \$4.5 million, and a milestone payment of up to \$46.0 million.
- In May 2022, the Company entered into an agreement with Abbott, pursuant to which, the Company agreed to grant a license to Abbott to commercialise HANLIKANG and HANQUYOU in Brazil. According to the agreement, the Company is entitled to receive an upfront payment of \$3.0 million, and a milestone payment of up to \$1.4 million.
- In June 2022, the Company entered into an agreement with Organon LLC, pursuant to which, the Company agreed to grant a license to Organon LLC and its affiliates to commercialise HLX11 (recombinant anti-HER2 domain II humanised monoclonal antibody injection) and HLX14 (recombinant anti-RANKL human monoclonal antibody injection) globally except for Mainland China, Hong Kong, Macau and Taiwan regions. According to the agreement, the Company is entitled to receive an upfront payment of \$70.0 million, and a milestone payment of up to \$468.0 million.
- In December 2022, the Company reached a business cooperation with Fosun Pharma Industrial Development, pursuant to which, the Company agreed to grant a license to Fosun Pharma Industrial Development to commercialise HANSIZHUANG in the United States. According to the agreement, the Company is entitled to receive an upfront payment of RMB1.0 billion, and a milestone payment of up to \$700 million, as well as a tiered royalty ranging from 10% to 18% of the annual net sales in the licensed territory.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group also actively accelerated the creation of innovative technology platforms and the expansion of innovative product pipelines through licensing introduction, cooperative development and other approaches.

- In June 2022, the Company entered into a collaboration and license agreement with Pallone for the global joint development and commercialisation of a bifunctional HER2-sialidase fusion protein and another tumour-related target-sialidase bifunctional fusion protein. The Company will obtain the exclusive commercialisation rights of two bifunctional antibody-sialidase fusion protein products in Mainland China, Hong Kong, Macau and Taiwan regions under the agreement, and the first collaborative product, a bifunctional HER2-sialidase fusion protein, is expected to enter clinical trial support studies soon.
- In 2022, the Group has reached cooperation consensus with Novacyte Therapeutics Biomedical Technology (Beijing) Co., Ltd.* (諾靈生物醫藥科技(北京)有限公司) and MediLink Therapeutics (Suzhou) Co., Ltd.* (蘇州宜聯生物醫藥有限公司), respectively on the introduction of ADC platform technology and the cooperative development of ADC products.

Meanwhile, after the comprehensive consideration of the actual situation in the R&D, the market conditions and other factors, the Group terminated the licensing introduction with Galaxy Biotech, LLC and Chiome Bioscience, Inc. to terminate the cooperation on the HLX56 and TROP2 targeted antibodies.

(III) SUSTAINABLE GLOBAL CLINICAL DEVELOPMENT CAPABILITY ON MEDICAL PRODUCTS

During the Reporting Period, based on clinical needs, the Group has orderly organised the development of innovative products. Clinical trials on indication for products are in further process, including HANSIZHUANG (PD-1) and related combination therapies, HLX301 (PD-L1 x TIGIT), HLX35 (EGFR x 4-1BB), HLX208 (BRAF V600E inhibitor), HLX53 (anti-TIGIT Fc fusion protein), HLX60 (GARP), HLX22 (HER2) for the treatment of solid tumours, lymphomas, small cell lung cancer (SCLC), adult Langerhans cell histiocytosis (LCH) and Erdheim-Chester disease (ECD), esophageal squamous cell carcinoma, gastric cancer and hepatocellular carcinoma.

As at the end of the Reporting Period, the Group, synergising R&D centres in China and the United States, has established a global product development team with approximately 450 staffs for advancing the clinical study and drug registration of many candidate drugs across the world, and achieved significant progress in 17 clinical trials and multiple global clinical trial approvals for 9 products and 5 combination therapies during the Reporting Period.

1. CONTINUOUS AND EFFICIENT ADVANCEMENT ON CLINICAL RESEARCH PRODUCT

As at the Latest Practicable Date, the Group has carried out a total of more than 30 clinical trials for 15 products and 13 combination therapies in an orderly manner in various countries/regions.

Progress of international clinical study projects

- Progress of HANSIZHUANG (serplulimab injection)
 - In March 2022, the phase 3 investigational new drug application (IND) of HANSIZHUANG in combination with chemotherapy (carboplatin/cisplatin-etoposide) and concurrent radiotherapy for the treatment of limited-stage small cell lung cancer (LS-SCLC) was approved by the NMPA. The first patient has been dosed in May 2022 in an international multi-centre phase 3 clinical study in Mainland China and the first patient in the United States has been dosed in January 2023. As at the Latest Practicable Date, such studies have been approved successively to commence in Australia, Spain, Germany and other countries.
 - In April 2022 and December 2022, HANSIZHUANG has been granted Orphan-Drug Designation for the treatment of small cell lung cancer (SCLC) by the United States Food and Drug Administration (FDA) and European Commission (EC), respectively.
 - In August 2022, the phase 1 clinical trial of HLX60 (recombinant humanised anti-GARP monoclonal antibody injection) in combination with HANSIZHUANG for the treatment of advanced or metastatic solid tumours has been approved to commence in Australia, and the first patient has been dosed in December 2022.
 - In November 2022, the first patient has been dosed in a bridging study in the United States for HANSIZHUANG in combination with chemotherapy(carboplatin-etoposide) for first-line treatment of extensive-stage small cell lung cancer (ES-SCLC).

MANAGEMENT DISCUSSION AND ANALYSIS

– Progress of other products

- In February 2022, the first patient has been dosed in a phase 1 clinical trial of HLX301 (recombinant anti-PD-L1 and anti-TIGIT bispecific antibody injection) for the treatment of locally advanced or metastatic solid tumours in Australia.
- In April 2022, the first patient has been dosed in an international multi-centre phase 3 clinical study of HLX11 (recombinant anti-HER2 domain II humanised monoclonal antibody injection) for the neoadjuvant therapy of HER2-positive, HR-negative early-stage or locally advanced breast cancer in Mainland China. As at the Latest Practicable Date, such study has been approved to commence in Spain, Bulgaria, Poland and other countries.
- In April 2022, the first patient has been dose in an international multi-centre phase 3 clinical trial of HLX04-O (recombinant anti-VEGF humanised monoclonal antibody injection) for the treatment of wet age-related macular degeneration (wAMD) in Latvia, Australia and other countries. In February 2023, the first patient in the United States has been dosed in such study.
- In April 2022, the phase 1 clinical trial of HLX20 (recombinant fully human anti-PD-L1 monoclonal antibody injection) conducted in patients with advanced solid tumours was completed in Australia, and HLX20 has demonstrated its good safety and tolerability in this trial.
- In June 2022, the first patient has been dosed in an international multi-centre phase 3 clinical study of HLX14 (recombinant anti-RANKL human monoclonal antibody injection) for the treatment of postmenopausal osteoporosis in women with high fracture risks in Mainland China. In July 2022, this international multi-centre phase 3 clinical study was approved to commence in Australia and the first patient in Australia has been dosed in November 2022.
- In August 2022, the phase 2 investigational new drug application (IND) of HLX07 (recombinant anti-EGFR humanised monoclonal antibody injection) for the treatment of locally advanced or metastatic cutaneous squamous cell carcinoma (CSCC) was accepted by the United States Food and Drug Administration (FDA) and was approved in September 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Progress of domestic clinical study projects

– Progress of HANSIZHUANG (serplulimab injection)

- In February 2022, the phase 2 investigational new drug application (IND) of HANSIZHUANG in combination with HLX07 (recombinant anti-EGFR humanised monoclonal antibody injection) and HANBEITAI for the first-line treatment of unresectable or metastatic hepatocellular carcinoma (HCC) was accepted by the NMPA and approved in April 2022.
- In April 2022, the phase 1 investigational new drug application (IND) of HLX26 (recombinant anti-LAG-3 humanised monoclonal antibody injection) in combination with HANSIZHUANG for the treatment of advanced/metastatic solid tumours or lymphomas was approved by the NMPA. In August 2022, the first patient has been dosed in a phase 1 clinical trial of HLX26 in combination with HANSIZHUANG for the treatment of advanced/metastatic solid tumours in Mainland China. In February 2023, the phase 2 investigational new drug application (IND) of HLX26 in combination with HANSIZHUANG and chemotherapy for the first-line treatment of advanced non-small cell lung cancer (NSCLC) was accepted by the NMPA.
- In May 2022, the phase 3 clinical study of HANSIZHUANG in combination with chemotherapy (Cisplatin + 5-FU) for the first-line treatment of patients with locally advanced/metastatic esophageal squamous cell carcinoma (ESCC), met the co-primary endpoints of progression-free survival (PFS) and overall survival (OS) in a planned interim analysis, evaluated by the Independent Data Monitoring Committee.
- In June 2022, the enrollment of subjects was completed in the phase 3 clinical study of HANSIZHUANG in combination with HANBEITAI in combination with chemotherapy (carboplatin-pemetrexed) for the first-line treatment of advanced non-squamous, non-small cell lung cancer (nsNSCLC) in Mainland China.
- In August 2022, the phase 2 investigational new drug application (IND) of HLX22 (anti-human epidermal growth factor receptor-2 (HER2) humanised monoclonal antibody injection) in combination with HANSIZHUANG and in combination with the standard therapy (Trastuzumab in combination with chemotherapy) for the first-line treatment of locally advanced/metastatic gastric cancer (GC) was accepted by the NMPA and was approved in October 2022.
- In November 2022, the phase 1b/2 investigational new drug application (IND) of HLX208 (BRAF V600E inhibitor) in combination with HANSIZHUANG and its combination therapies for the treatment of BRAF V600E or BRAF V600 mutation-positive advanced solid tumours was approved by the NMPA. In February 2023, the first patient has been dosed in a phase 1b/2 clinical trial of HLX208 (BRAF V600E inhibitor) in combination with HANSIZHUANG for the treatment of non-small cell lung cancer (NSCLC) in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

– Progress of other products

- In January 2022, the phase 1b/2 investigational new drug application (IND) of HLX208 (BRAF V600E inhibitor) monotherapy or in combination therapy for the treatment of BRAF V600E or BRAF V600 mutation-positive advanced solid tumours was approved by the NMPA. In the same month, the first patient has been dosed in the phase 2 clinical trial of HLX208 (BRAF V600E inhibitor) for the treatment of adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD) with BRAF V600E mutation in Mainland China. In April 2023, HLX208 (BRAF V600E inhibitor) for the treatment of adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD) with BRAF V600E mutation has been officially granted the Breakthrough Therapy Designation by the Center for Drug Evaluation of the NMPA.
- In January 2022, the investigational new drug application (IND) of HLX35 (recombinant humanised anti-EGFR and anti-4-1BB bispecific antibody injection) for the treatment of advanced malignant solid tumours was approved by the NMPA. In June 2022, the first patient has been dosed in the phase 1 clinical trial of HLX35 for the treatment of advanced or metastatic solid tumours in Mainland China.
- In March 2022, the investigational new drug application (IND) of HLX301 (recombinant anti-PD-L1 and anti-TIGIT bispecific antibody injection) for the treatment of advanced tumours has been approved by the NMPA. In July 2022, the first patient has been dosed in a phase 1/2 clinical trial of HLX301 for the treatment of locally advanced/metastatic solid tumours or lymphomas in Mainland China.
- In June 2022, the phase 1 investigational new drug application (IND) of HLX53 (anti-TIGIT Fc fusion protein) for the treatment of advanced solid tumours or lymphomas was approved by the NMPA, and the first patient has been dosed in such trial in December 2022.
- In September 2022, the phase 1 clinical trial of the HLX22 (anti-human epidermal growth factor receptor-2 (HER2) humanised monoclonal antibody injection) has been completed in Mainland China, which has demonstrated the good safety and tolerability of HLX22 in the phase 1 clinical trial conducted in patients with HER2 overexpressing advanced solid tumours.
- In October 2022, the phase 1 investigational new drug application (IND) of HLX60 (recombinant humanised anti-GARP monoclonal antibody injection) for the treatment of solid tumours and lymphomas was approved by the NMPA, and the first patient has been dosed in such trial in December 2022.
- In February 2023, the first subject has been dosed in a phase 1 clinical study of HLX15 (recombinant anti-CD38 human monoclonal antibody injection) in healthy Chinese male subjects.
- In February 2023, the phase 1b/2 clinical trial of HLX07 (recombinant anti-EGFR humanised monoclonal antibody injection) in combination with chemotherapy has been completed in Mainland China, which has demonstrated its good safety and tolerability in the phase 1b/2 clinical trial conducted in patients with advanced solid tumours.

MANAGEMENT DISCUSSION AND ANALYSIS

2. EFFICIENT ADVANCEMENT ON IND APPLICATION FOR PRE-CLINICAL DEVELOPMENT PROJECTS

The Group attached great importance to the pre-clinical project pipeline, multiple global clinical trial approvals for 9 products and 5 combination therapies were granted during the Reporting Period, projects covering targets including EGFR×4-1BB, PD-L1×TIGIT, GARP, LAG-3, TIGIT, etc., of which the investigational new drug applications (IND) were successfully approved, has entered into clinical study stage. In addition, in January 2023, the investigational new drug application (IND) of HLX51 (recombinant anti-OX40 humanised monoclonal antibody for injection) for the treatment of advanced/metastatic solid tumours and lymphomas was accepted by NMPA and was approved in March 2023.

The clinical and pre-clinical application results of the Group's products from the beginning of 2022 up to the Latest Practicable Date:

Product name (targets)	Indications	Progress as at the Latest Practicable Date
Efficient advancement on international clinical study projects		
HANSIZHUANG in combination with chemotherapy concurrent radiotherapy (PD-1)	Limited-stage small cell lung cancer (LS-SCLC)	In March 2022, the phase 3 investigational new drug application was approved by the NMPA In May 2022, the first patient dosing was completed in an international multi-centre phase 3 clinical study in Mainland China In October 2022, an international multi-centre phase 3 clinical study was approved to commence in Australia In November 2022, an international multi-centre phase 3 clinical study was approved to commence in Spain In January 2023, the first patient in the United States has been dosed in an international multi-centre phase 3 clinical study
HANSIZHUANG (PD-1)	Small cell lung cancer (SCLC)	In April 2022, the United States Food and Drug Administration (FDA) granted Orphan-drug Designation In December 2022, the European Commission (EC) granted Orphan-drug Designation
HLX60 in combination with HANSIZHUANG (GARP+PD-1)	Solid tumour	In August 2022, the phase 1 clinical study was approved to commence in Australia In December 2022, the first patient dosing was completed in a phase 1 clinical trial in Australia

MANAGEMENT DISCUSSION AND ANALYSIS

Product name (targets)	Indications	Progress as at the Latest Practicable Date
HANSIZHUANG in combination with chemotherapy (PD-1)	Extensive-stage small cell lung cancer (ES-SCLC)	In November 2022, the first patient dosing was completed in a bridging study in the United States
HLX301 (PD-L1×TIGIT)	Solid tumour	In February 2022, the first patient dosing was completed in a phase 1 clinical trial in Australia
HLX11 (HER2)	Neoadjuvant treatment of breast cancer	In April 2022, the first patient dosing was completed in an international multi-centre phase 3 clinical trial in Mainland China In October 2022, an international multi-centre phase 3 clinical study was approved to commence in Spain
HLX04-O (VEGF)	Wet age-related macular degeneration (wAMD)	In April 2022, the first patient dosing was completed in an international multi-centre phase 3 clinical study in Latvia, Australia, etc. In February 2023, the first patient in the United States has been dosed in an international multi-centre phase 3 clinical study
HLX20 (PD-L1)	Solid tumour	In April 2022, a phase 1 clinical study was completed in Australia
HLX14 (RANKL)	Osteoporosis (OP)	In June 2022, the first patient dosing was completed in an international multi-centre phase 3 clinical study in Mainland China In July 2022, an international multi-centre phase 3 clinical study was approved to commence in Australia In November 2022, the first patient in Australia has been dosed in an international multi-centre phase 3 clinical study
HLX07 (EGFR)	Cutaneous squamous cell carcinoma (CSCC)	In August 2022, the phase 2 investigational new drug application was accepted by the United States Food and Drug Administration (FDA) In September 2022, the phase 2 investigational new drug application was approved by the United States Food and Drug Administration (FDA)

MANAGEMENT DISCUSSION AND ANALYSIS

Product name (targets)	Indications	Progress as at the Latest Practicable Date
Smooth progress of domestic clinical projects		
HANSIZHUANG in combination with HLX07 and HANBEITAI (PD-1+EGFR+VEGF)	Hepatocellular carcinoma (HCC)	In February 2022, the phase 2 investigational new drug application was accepted by the NMPA In April 2022, the phase 2 investigational new drug application was approved by the NMPA
HLX26 in combination with HANSIZHUANG (LAG-3+PD-1)	Solid tumour	In April 2022, the phase 1 investigational new drug application was approved by the NMPA In August 2022, the first patient dosing was completed in a phase 1 clinical trial In February 2023, the phase 2 investigational new drug application for the treatment of advanced non-small cell lung cancer (NSCLC) was accepted by the NMPA
HANSIZHUANG in combination with chemotherapy (PD-1)	Esophageal squamous cell carcinoma (ESCC)	In May 2022, the phase 3 clinical trial met the primary endpoint
HANSIZHUANG in combination with HANBEITAI and in combination with chemotherapy (PD-1+VEGF)	Non-squamous, non-small cell lung cancer (nsNSCLC)	In June 2022, the enrollment of subjects was completed in a phase 3 clinical trial
HLX22 in combination with HANSIZHUANG and in combination with the standard therapy (Trastuzumab and chemotherapy) (HER2+PD-1+HER2)	Gastric cancer (GC)	In August 2022, the phase 2 investigational new drug application was accepted by the NMPA In October 2022, the phase 2 investigational new drug application was approved by the NMPA

MANAGEMENT DISCUSSION AND ANALYSIS

Product name (targets)	Indications	Progress as at the Latest Practicable Date
HLX208 in combination with HANSIZHUANG and its combination therapies (BRAF V600E+PD-1)	Solid tumour	In November 2022, the phase 1b/2 investigational new drug application was approved by the NMPA In February 2023, the first patient dosing was completed in a phase 1b/2 clinical trial for the treatment of non-small cell lung cancer (NSCLC)
HLX208 (BRAF V600E)	Solid tumour, adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD)	In January 2022, a phase 1b/2 investigational new drug application in monotherapy or in combination therapy was approved by the NMPA In January 2022, the first patient dosing was completed in a phase 2 clinical trial In April 2023, the treatment of adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD) with BRAF V600E mutation has been officially granted the Breakthrough Therapy Designation by the Center for Drug Evaluation of the NMPA
HLX35 (EGFR × 4-1BB)	Solid tumour	In January 2022, the investigational new drug application was approved by the NMPA In June 2022, the first patient dosing was completed in a phase 1 clinical trial
HLX301 (PD-L1 × TIGIT)	Solid tumour, lymphomas	In March 2022, the investigational new drug application was approved by the NMPA In July 2022, the first patient dosing was completed in a phase 1/2 clinical trial
HLX53 (TIGIT)	Solid tumour, lymphomas	In June 2022, the phase 1 investigational new drug application was approved by the NMPA In December 2022, the first patient dosing was completed in a phase 1 clinical trial
HLX22 (HER2)	Solid tumour	In September 2022, a phase 1 clinical study was completed
HLX60 (GARP)	Solid tumour, lymphomas	In October 2022, the phase 1 investigational new drug application was approved by the NMPA In December 2022, the first patient dosing was completed in a phase 1 clinical trial
HLX15 (CD38)	Multiple myeloma (MM)	In February 2023, the first subject dosing was completed in a phase 1 clinical trial
HLX07 in combination with chemotherapy (EGFR)	Solid tumour	In February 2023, a phase 1b/2 clinical study was completed

MANAGEMENT DISCUSSION AND ANALYSIS

Product name (targets)	Indications	Progress as at the Latest Practicable Date
Efficient advancement on IND application for pre-clinical development projects		
HLX35 (EGFR × 4-1BB)	Solid tumour	In January 2022, the investigational new drug application was approved by the NMPA (Already in clinical phase)
HLX208 (BRAF V600E)	Solid tumour, adult Langerhans Cell Histiocytosis (LCH) and Erdheim-Chester disease (ECD)	In January 2022, a phase 1b/2 investigational new drug application in monotherapy or in combination therapy was approved by the NMPA (Already in clinical phase)
HLX301 (PD-L1 × TIGIT)	Solid tumour, lymphomas	In January 2022, the investigational new drug application was accepted by the NMPA In March 2022, the investigational new drug application was approved by the NMPA (Already in clinical phase)
HLX26 in combination with HANSIZHUANG (LAG-3+PD-1)	Solid tumour	In February 2022, the investigational new drug application was accepted by the NMPA In April 2022, the investigational new drug application was approved by the NMPA (Already in clinical phase)
HLX53 (TIGIT)	Solid tumour, lymphomas	In April 2022, the investigational new drug application was accepted by the NMPA In June 2022, the investigational new drug application was approved by the NMPA (Already in clinical phase)
HLX60 in combination with HANSIZHUANG (GARP+PD-1)	Solid tumour	In June 2022, the phase 1 investigational new drug application was submitted in Australia In August 2022, the phase 1 clinical study was approved to commence in Australia (Already in clinical phase)

MANAGEMENT DISCUSSION AND ANALYSIS

Product name (targets)	Indications	Progress as at the Latest Practicable Date
HLX60 (GARP)	Solid tumour, lymphomas	In August 2022, the investigational new drug application was accepted by the NMPA In October 2022, the investigational new drug application was approved by the NMPA (Already in clinical phase)
HLX208 in combination with HANSIZHUANG and its combination therapies (BRAF V600E+PD-1)	Solid tumour	In August 2022, the phase 1b/2 investigational new drug application was accepted by the NMPA In November 2022, the phase 1b/2 investigational new drug application was approved by the NMPA (Already in clinical phase)
HLX51 (OX40)	Solid tumour, lymphomas	In January 2023, the investigational new drug application was accepted by the NMPA In March 2023, the investigational new drug application was approved by the NMPA

(IV) ORIENTATION TOWARD CLINICAL VALUE AND INJECTING IMPETUS TOWARD THE PIPELINE

With clinical-value-oriented early study, coordinated with early R&D teams from China and the U.S., based on new discovery driven by deep data and accelerated biocomputing of molecular design technology, the Group has been assiduously cultivating the field of solid tumours, and further expanding into non-oncology disease areas including metabolic, cardiovascular, renal and nervous system disease, and rare diseases where clinical needs are barely met, so that impetus toward the pipeline can be injected. Being independently innovated, the Group has carried out cooperation with external cutting-edge, leading scientific research institutions, and introduced Tumour-Related Target-Sialidase Bifunctional Fusion Protein, ADC platform technology during the Reporting Period, in order to early incubate the cutting-edging ground-breaking science and technologies, bolstering the strength of independent innovation efficiently.

As at the Latest Practicable Date, the Group has 57 molecules (including 10 biosimilar drugs and 47 innovative drugs) in its pipeline, with the form of drug covering monoclonal antibody, bispecific antibody, polyclonal antibody, antibody-drug conjugates(ADC), small molecule-drug conjugates and recombinant protein, etc.

(V) LAYOUT OF INDUSTRIALISATION BASE FOR BIOMEDICINES WITH HIGH ECONOMIC BENEFIT BASED ON INTERNATIONAL STANDARDS

As at the end of the Reporting Period, the Group, with a total commercial production capacity of 48,000L (including Xuhui Facility with commercial production capacity of 24,000L and Songjiang First Plant with commercial production capacity of 24,000L), has fully supported the commercialisation needs of domestic and overseas approved marketing products. Meanwhile, the production capacity of 96,000L was under construction (Songjiang Second Plant Phase I Project), and it is expected to be completed by 2026, increasing the total production capacity of the Group to 144,000L. Xuhui Facility, the Group's first biopharmaceutical production base in Shanghai Caohejing Hi-Tech Park has been granted with Chinese and EU GMP certificates and achieved normalised supply in China and the EU markets. In addition, both Songjiang First Plant and Songjiang Second Plant of the Group in Songjiang District, Shanghai also made significant progress during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

SONGJIANG FIRST PLANT (APPROVED FOR THE PRODUCTION OF HANQUYOU WITH COMMERCIAL PRODUCTION CAPACITY OF 24,000L)

Songjiang First Plant has a commercial production capacity of 24,000L, including the liquid fill line and lyophilised preparation line. In April 2022, the Songjiang First Plant, in which the drug substance west line and east line (with a total production capacity of 24,000L), drug product line and packaging line for the production of HANQUYOU, has passed the drug GMP compliance inspection and it has a quality management system that meets the requirements of China's GMP regulations. In May 2022, HANQUYOU for production site change, production process optimization and production scale expansion of drug product, etc. were approved by the NMPA. The Songjiang First Plant was approved to commence commercial production of HANQUYOU under the optimized new production process in Mainland China. Besides, during the Reporting Period, the Songjiang First Plant has passed certification by Qualified Person (QP) from the EU, indicating that the Songjiang First Plant and its supporting quality management system meet the requirements of EU's GMP regulations, and its products including HLX04-O, HLX11, HLX14 and others were able to conduct clinical trials in Europe.

SONGJIANG SECOND PLANT (WITH TOTAL PLANNED LAND AREA OF 200 ACRES AND DESIGNED PRODUCTION CAPACITY FOR PHASE I PROJECT OF 96,000L)

In order to meet the Group's long-term demand on commercial production capacity, the construction of the Phase I project of Songjiang Second Plant, with a total planned land area of 200 acres was started in 2019. The designed production capacity for the first and second stages of this project is totaled 36,000L. Two main production buildings have completed construction, process equipment installation, public system and the adjustment of primary liquid production line in the second half of 2022, and QC laboratory was put into service. The designed production capacity of the third stage of the Phase I project of Songjiang Second Plant was 60,000L (covering a drug substance line consisting of four 15,000L stainless steel reactors) with its piling works, the construction of building envelope and the slab foundation were completed during the Reporting Period, and purchasing process for large equipment was put into use.

(VI) SOCIAL RESPONSIBILITY, ENVIRONMENTAL POLICIES AND PERFORMANCE

Adhering to the philosophy of "Affordable Innovation, Reliable Quality", the Group has been committed to providing more affordable and higher quality medicines for global patients, and has actively fulfilled its responsibilities toward stakeholders such as patients, employees, partners, and communities. The Group has placed the legality and compliance as its core operating principle by strictly abiding by the relevant laws and regulations in the regions where it operates by restricting its own behavior. Also, the Group attaches great importance to the establishment and maintenance of relationships with its stakeholders and establishes close relationship with stakeholders through diversified means of communication. During the Reporting Period, the Group sent a questionnaire to stakeholders to have an in-depth knowledge of internal and external stakeholders' assessment and expectations for material ESG related issues, and responded accordingly based on the results of the questionnaire. The Group took corporate social responsibilities as its own duty and gave full play to its own advantages to actively devote to patients public welfare and public health emergency response. During the Reporting Period, the Group initiated a public welfare program named "To the Time to Life" for cancer patients, with the intention of casting light on cancer patients' recovery journeys through arts. It continued the "Excellent Medical Assistance" program and provided support to rural medical development. Amid the resurgence of Covid-19, the Group took quick action to integrate resources to stabilise production, ensure the supply of products and protect the interests of patients, so as to input more resources to communities. In terms of environmental management, the Group continued to improve environmental management system and put multiple management measures into practice under the guidance of environmental objectives. During the Reporting Period, there were no events that led to any major penalties from relevant departments due to environmental issues.

Further information on the Group's social responsibility, environmental policies and performance will be set out in the Environmental, Social and Governance Report to be published by the Company in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

II. OUTLOOK FOR 2023

In 2023, the Group will continue to devote to oncology, auto-immuno diseases and other fields, and it will explore innovation drugs with clinical orientation by leveraging on its own innovation and R&D strength combined with external cooperation and license-in while maximizing the commercial value of biosimilars at home and abroad, so as to consolidate the internationalised capability of “integrating research, production and marketing”, and achieve steady development at a larger, international and more profitable Biopharma stage.

(I) CAPITALISE ON FIRST-ENTRANT ADVANTAGES AND INCREASE THE GLOBAL MARKET COVERAGE OF PRODUCTS

As one of the leading biomedicine companies in China, the Group will continue to advance the successful marketing of more products in an all-round efficient commercial operation way, providing global patients with biological drugs of affordable price and high-quality.

HANQUYOU is the Group's first core anti-tumour product promoted and sold within Mainland China as led by its self-built commercialisation team. In 2023, the Group will take further actions to promote the inclusion of HANQUYOU (both 150mg and 60mg) into medical insurance procurement platforms, and continue to optimize the diagnosis and treatment ecosystem for HER2-positive patients. It will also enhance the development of patient's management and education platform, and build a follow-up platform for patients through external cooperation, provide some facilitation measures for HANQUYOU patients, including reminder for return visit and online simple consultation, enabling more patients to have access to standardized treatment.

HANSIZHUANG is one of the Group's core innovative monoclonal antibody products. In 2023, the Group plans to further expand the sales team of HANSIZHUANG, and set up a dedicated sales team for gastrointestinal tumours in advance, so as to prepare for the potential marketing of HANSIZHUANG for the treatment of esophageal squamous cell carcinoma (ESCC) indication in the near future, thereby grasping the market potential of HANSIZHUANG to the maximum extent possible. While making marketing and sales planning, the Group will team up with business partners to develop full process solutions for the management of patients, and further explore commercial insurance and the feasibility of innovative payments, thus improving medication compliance and standard treatment rate of patients.

In 2023, the Group will establish a dedicated sales team to sell HANBEITAI, covering cities adopting dual-channel medical insurance payment.

Jiangsu Fosun and Jiangsu Wanbang, subsidiaries of Fosun Pharma, the controlling shareholder of the Company, are responsible for the domestic commercial sale of HANLIKANG and HANDAYUAN, respectively. In 2023, the Group will maintain close cooperation with Jiangsu Fosun and Jiangsu Wanbang to capture the first mover advantage of the two drugs in China, thereby promoting the sustained growth of sales.

While actively expanding the domestic market, the Group will constantly promote the business cooperation of its self-developed products in the international market. With the continuous advancement of the R&D and registration of pipeline products of the Group and the gradual recognition of the Group's products of the international market, the Group will continue to seek business cooperations with more international leading pharmaceutical companies to jointly promote the expansion of our products into broader international markets, especially emerging markets with huge unmet medical needs for affordable drugs, which will benefit patients overseas.

(II) CONTINUE TO FACILITATE THE APPROVALS OF MORE PRODUCTS FOR NEW INDICATIONS

HANSIZHUANG is the core innovative monoclonal antibody product of the Group, which is also the first commercial innovation of the Group. The Group promotes the marketing of HANSIZHUANG for other indications and combination therapies related to HANSIZHUANG while pushing the launch of other innovative products with experiences gained along the way.

- The new drug application (NDA) for HANSIZHUANG in combination with chemotherapy for the first-line treatment of new indication of locally advanced/recurrent or metastatic esophageal squamous cell carcinoma (ESCC) is expected to be approved in Mainland China in the second half of 2023.
- The new drug application (NDA) for HANSIZHUANG in combination with chemotherapy for the first-line treatment of metastatic non-squamous non-small cell lung cancer (nsNSCLC) is scheduled to be submitted in Mainland China in the second half of 2023.
- The marketing authorisation application (MAA) for HANSIZHUANG in combination with chemotherapy for the first-line treatment of adult patients with extensive-stage small cell lung cancer (ES-SCLC) is expected to be approved in EU in the first half of 2024.
- The biologics license application (BLA) for HANSIZHUANG in combination with chemotherapy for the treatment of the indication of extensive-stage small cell lung cancer (ES-SCLC) is scheduled to be submitted in the United States in the first half of 2024.

In 2023, the Group will also proactively cooperate with international partners to facilitate the marketing approval process in terms of HANQUYOU, HANSIZHUANG, HANLIKANG, HANDAYUAN and HANBEITAI in the United States, Singapore, Brazil, Indonesia and other regions. The biologics license application (BLA) for HANQUYOU for adjuvant treatment of HER2 overexpressing breast cancer, the treatment of HER2 overexpressing metastatic breast cancer and the treatment of HER2 overexpressing metastatic gastric or gastroesophageal junction adenocarcinoma is expected to be approved in the United States in late 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) CONTINUE TO BUILD INNOVATIVE PRODUCT PIPELINE THROUGH ITERATING R&D CAPABILITIES

The Group will continue to leverage international resources and advantages to explore cutting-edge innovative products with clinical value, and deepen the early R&D results, with a view to addressing unmet clinical needs as soon as possible. In 2023, some of the early-stage innovative products in Group's pipeline are expected to be further promoted:

- The phase 1 investigational new drug application (IND) of HLX42 (antibody-drug conjugate targeting EGFR) for the treatment of solid tumours is expected to be submitted to the NMPA in the second half of 2023.
- The phase 1 investigational new drug application (IND) of HLX43 (antibody-drug conjugate targeting PD-L1) for the treatment of solid tumours is expected to be submitted to the NMPA in the second half of 2023.
- The phase 1 investigational new drug application (IND) of HLX6018 (monoclonal antibody targeting the GARP/TGFβ1 complex) for the treatment of chronic inflammatory diseases is expected to be submitted to the NMPA in the second half of 2023.

(IV) MAINTAIN THE INTERNATIONAL HIGH QUALITY STANDARDS AND CONTINUE TO PROMOTE INDUSTRIALISATION DEPLOYMENT

The Group proactively plans the construction of production bases and the expansion of production capacity in accordance with the process of product R&D and marketing, providing a strong guarantee for the commercial sales of products. The Group's Xuhui Facility will continue to adopt a series of lean management and process optimization measures in 2023 to ensure the stability and efficiency of international commercial production, and plan to complete the GMP compliance inspection before the launch of HANSIZHUANG in the EU in 2023. In 2023, Songjiang First Plant will continuously improve the international standard quality system and plan to complete the GMP compliance inspection of HANQUYOU before its launch in the United States.

The verification work of facilities and equipment for the two main production buildings in the first and second stage of the Songjiang Second Plant Phase I Project are expected to be completed in the first half of 2023. The first batch production of the Songjiang Second Plant project is expected to be completed in 2023. The topping of the main structure of the third stage of the Songjiang Second Plant Phase I project is expected to be completed in 2023. The Group will promote the construction and operation of the Songjiang Second Plant as soon as possible. When completed, the Songjiang Second Plant will become the monoclonal antibody biological drug R&D, pilot test and production base of the Group. This will further enhance the market competitiveness of the Group in its core business areas and meet the global commercial production needs of the Group's products.

III. FINANCIAL REVIEW

(I) REVENUE

During the Reporting Period, the Group capitalised on its first-mover advantages and expanded the market coverage of products, actively improved the commercialisation layout aligning with multiple and targeted market strategies and the keen and efficient capacity for selling products to build a powerful commercialisation capability, and to lay the solid foundation for successful commercialisation of later products and high-quality treatment options for more patients. During the Reporting Period, HANQUYOU, the first core product of the Group in the field of anti-tumour therapy that was promoted and sold by the Group's in-house commercialisation team in Mainland China, continued to rise in its sales at a high speed with encouraging results; HANSIZHUANG, the first self-developed and approved bio-innovative drugs of the Group, was approved for marketing in Mainland China in March 2022, and recorded substantial sales revenue during the Reporting Period.

With continuous advancement of the R&D and registration of rich and diversified pipeline products of the Group, and the increasing understanding and full recognition of the Group's products from the international market, the Group worked hard to march into the mainstream biologics market in Europe and the United States. Meanwhile, the Group focused on its expansion into emerging markets in its globalization strategy, proactively promoting internationalised layout, quickening the pace of international operation strategy, and keeping efforts on innovation. During the Reporting Period, the Group cooperated with partners and continued to expand overseas markets to deliver benefits to the patients around the world and brought in considerable licensing income and R&D service income.

During the Reporting Period, the Group realised an operating income of RMB3,214.7 million, representing an increase of 91.1% compared to the same period in the last year, and the main revenue components are as follows:

1) REVENUE FROM PRODUCT SALES:

HANQUYOU was the first domestic trastuzumab approved for marketing independently developed by the Group and was also the first product of the Group to adopt its in-house team to conduct commercialisation promotion. It was commercially available in the domestic market in August 2020. During the Reporting Period, HANQUYOU recorded a sales revenue of approximately RMB1,694.4 million, representing a dramatic increase of approximately RMB826.4 million or approximately 95.2% as compared to the same period in the last year. Meanwhile, drug substance of trastuzumab recorded sales revenue of approximately RMB1.5 million in Mainland China.

HANSIZHUANG (serplulimab) was the first self-developed and approved bio-innovative drugs of the Group and was commercially available in the domestic market in March 2022. The approval of HANSIZHUANG will further enrich the Group's commercial product line and will also bring more treatment options for domestic patients. During the Reporting Period, HANSIZHUANG recorded sales revenue of approximately RMB339.1 million.

In respect of HANLIKANG (rituximab), according to the cooperation agreement with Fosun Pharma, Fosun Pharma would reimburse all the expenses related to the clinical trials of HANLIKANG incurred by the Group after the relevant cooperation agreement was signed, and the Group was responsible for the production of HANLIKANG in China and the supply of HANLIKANG to Fosun Pharma after the commercialisation of HANLIKANG, and shall share the profits from the sales of HANLIKANG in China. During the Reporting Period, the Group recorded sales revenue of approximately RMB553.9 million, and licensing income of approximately RMB20.9 million under the aforementioned profit-sharing arrangement with its partners.

In respect of HANDAYUAN (adalimumab), according to the cooperation agreement with Fosun Pharma, Fosun Pharma will reimburse all the expenses related to the clinical trials of HANDAYUAN incurred by the Group after the relevant cooperation agreement is signed, and the Group is responsible for the production of HANDAYUAN in China and the supply of HANDAYUAN to Fosun Pharma after the commercialisation of HANDAYUAN, and shall share the profits from the sales of HANDAYUAN in China. During the Reporting Period, HANDAYUAN recorded sales revenue of approximately RMB51.2 million and licensing income of approximately RMB2.6 million under the aforementioned profit-sharing arrangement with its partners.

Zercepac® (trastuzumab, European brand name) recorded revenue of approximately RMB26.5 million during the Reporting Period, and drug substance of trastuzumab recorded sales revenue of approximately RMB8.8 million in international market.

MANAGEMENT DISCUSSION AND ANALYSIS

2) REVENUE FROM JOINT DEVELOPMENT AND TECHNOLOGY TRANSFER/COMMERCIALISATION LICENSING

The Group has focused on clinical needs for a long time, proactively promoted internationalised layout, and quickened the pace of international operation strategy with persistence. The Group has built an integrated biopharmaceutical platform with innovative capabilities throughout the entire industry chain of R&D, production and commercial operations. Meanwhile, with the continuous improvement of the R&D system and innovation capabilities of the Group, our influence in the international market is growing, the number and overall amount of licensed-out projects are constantly expanding. During the Reporting Period, the Group also carried out business cooperation with many partners around the world based on various projects, including intellectual property licensing, joint development, commercial authorisation etc., which further improved the accessibility and influence of Company's products in global market, bringing hope to more patients.

In June 2018, the Group entered into a license agreement with Accord in relation to HANQUYOU (European brand name: Zercepac®), granting Accord exclusive commercialisation rights in special territories as agreed therein. In July 2020, the marketing authorisation application of Zercepac® submitted by a wholly-owned subsidiary of Accord was approved. Since then, Zercepac® has been the first "Chinese" monoclonal antibody biosimilar drug approved for sale in the EU. The Group has recognised licensing revenue and revenue from R&D services of approximately RMB4.7 million for the 12 months ended 31 December 2022.

In September 2019, the Group entered into a co-development and commercialisation agreement with PT Kalbe Genexine Biologics in relation to HANSIZHUANG (serplulimab). With the continuous advancement of R&D services, the Group has recognised revenue from R&D services of approximately RMB6.2 million for the 12 months ended 31 December 2022.

In October 2020, the Group entered into a co-development and exclusive license agreement with Essex Bio-Investment Limited and Zhuhai Essex Bio-Pharmaceutical Co., Ltd. * (珠海億勝生物製藥有限公司) in relation to the HLX04-O (recombinant humanised anti-VEGF monoclonal antibody injection) independently developed by the Group. The Group has recognised revenue from R&D services of approximately RMB116.3 million for the 12 months ended 31 December 2022.

In November 2020, the Group entered into a license and co-development agreement with Binacea Pharma Inc. in relation to HLX35 (recombinant humanised anti-EGFR and anti-4-1BB bispecific antibody injection) independently developed by the Group. The Group has recognized licensing revenue of approximately RMB19.0 million for the 12 months ended 31 December 2022.

In January 2021, the Group entered into a license agreement with Intas in relation to HANQUYOU (European brand name: Zercepac®), granting Intas exclusive developing and commercial rights in special territories as agreed therein. The Group has recognised licensing revenue of approximately RMB163.9 million for the 12 months ended 31 December 2022.

In June 2022, the Group entered into a license and supply agreement with Organon LLC, granting Organon LLC and its affiliates exclusive right to commercialise two products independently developed by the Group, being HLX11 (recombinant anti-HER2 domain II humanised monoclonal antibody injection) and HLX14 (recombinant anti-RANKL human monoclonal antibody injection) worldwide except for China, fully covering the U.S., EU, Japan and other major biomedicine markets and many emerging markets. The Group has recognised revenue from R&D services of approximately RMB143.1 million for the 12 months ended 31 December 2022.

3) REVENUE FROM OTHER R&D SERVICE BUSINESSES

In February 2022, the Group entered into a technical service contract with Shanghai Zhenge Biotech Co., Ltd.* (上海臻格生物技术有限公司) in relation to the study and production of freeze-dried formulation at IND stage, an antibody drug under development. With the continuous advancement of technical service, the Group recognised revenue from R&D service of approximately RMB2.6 million for the 12 months ended 31 December 2022.

In March 2022, the Group entered into a Fosun Pharma industrial technical services agreement with Fosun Pharma Industrial Development in relation to provision of CMC and pre-clinical toxicology research services to Fosun Pharma Industrial Development for an antibody drug FS2101 under development. The Group recognised revenue from R&D services of approximately RMB30.7 million for the 12 months ended 31 December 2022.

In March 2022, Fosun Pharma Industrial Development was in the process of licensing the antibody drug FS2101 to Xinghao Pengbo, a subsidiary of Fosun Pharma. In anticipation of such license and to ensure seamless services to be provided in respect of FS2101, the Group entered into the Technical Services Agreement with Xinghao Pengbo, pursuant to which the Group agreed to provide additional CMC and preclinical bioanalysis technical services to Xinghao Pengbo in relation to FS2101. For the 12 months ended 31 December 2022, the Group recognised revenue from R&D services of approximately RMB5.6 million.

In November 2022, the Group entered into the Clinical Trial Research Services Agreement with Henan Genuine Biotech Co., Ltd.* (河南真實生物科技有限公司) and Fosun Pharma Industrial Development in relation to provision of clinical trial research services regarding the prevention of SARS-Cov-2 of Azvudine. For the 12 months ended 31 December 2022, the Group recognised revenue from R&D service of approximately RMB18.0 million.

(II) COST OF SALES

Cost of sales of the Group primarily represents reagents and consumables, employee compensation, outsourcing expenses, utilities expenses and depreciation and amortisation. For the 12 months ended 31 December 2022, the Group recorded cost of sales of approximately RMB844.6 million, representing an increase of approximately RMB321.9 million as compared with that for the 12 months ended 31 December 2021, due to the increase of the sales volume of the key commercial product markets.

(III) GROSS PROFIT

For the 12 months ended 31 December 2022, the Group recorded a gross profit of approximately RMB2,370.1 million, representing an increase of approximately RMB1,210.4 million, as compared with that for the 12 months ended 31 December 2021, mainly due to the continuous growth of sales from HANQUYOU and HANSIZHUANG, the key commercial products of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) OTHER INCOME AND GAINS

Other income of the Group mainly included government grants, exchange gains and bank interest income. Government grants included (1) government grants for capital expenditure in relation to the purchase of machinery and equipment (recognised over the useful life of the relevant assets); (2) incentives for R&D activities and other grants (recognised after satisfying certain conditions imposed by the government).

During the Reporting Period, the Group recognised other income and gains of approximately RMB105.6 million.

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Government grants	69,043	41,896
Exchange gains	32,919	—
Interest income	3,571	2,686
Others	19	509
Total	105,552	45,091

(V) R&D expenditure

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Expensed R&D expenses		
R&D employee salaries	460,783	338,988
Outsourcing fees	296,959	152,730
Clinical trials	212,151	90,850
Reagents and consumables	134,850	92,712
Depreciation and amortisation	94,059	87,171
Consulting expense	51,430	24,709
Technology expense	45,288	136,808
Utilities expenses	19,161	15,822
Share-based compensation	1,446	13,188
Others	78,387	70,953
Total expensed R&D expenses	1,394,514	1,023,930
Capitalised R&D expenses		
Clinical trials	519,408	420,143
R&D employee salaries	153,850	195,413
Outsourcing fees	24,227	4,593
Depreciation and amortisation	23,890	37,669
Reagents and consumables	15,020	36,849
Consulting expense	3,263	2,858
Utilities expenses	1,380	28,650
Share-based compensation	707	4,519
Others	46,943	9,100
Total capitalised R&D expenses	788,688	739,793

MANAGEMENT DISCUSSION AND ANALYSIS

For the 12 months ended 31 December 2022, the Group recognised R&D expenses of approximately RMB2,183.2 million, representing an increase of approximately RMB419.5 million as compared with that of approximately RMB1,763.7 million for the 12 months ended 31 December 2021. The increase in R&D expenses was mainly due to the increase of investment in innovative R&D projects to accelerate the Group's innovation and transformation.

(VI) ADMINISTRATIVE EXPENSES

Administrative expenses mainly included administrative staff costs, office administrative expenses, depreciation and amortisation, audit and consulting fees, etc.

For the 12 months ended 31 December 2022, the Group recognised administrative expenses of approximately RMB354.0 million as compared with that of approximately RMB280.6 million for the 12 months ended 31 December 2021, representing an increase of approximately RMB73.4 million. The increase in administrative expenses of the Group was mainly due to: (1) the increase in the cost of the administrative staff resulted from the expansion of the operations and development of the Group and its higher requirements for compliance; and (2) the corresponding increase in office administrative expenses, depreciation costs and software expenses to accelerate its drift to digits and improve operational efficiency.

(VII) SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group mainly included salaries, promotional expenses and other expenses, etc.

For the 12 months ended 31 December 2022, the Group recognised selling and distribution expenses of approximately RMB1,049.3 million, which were mainly the marketing expenses incurred in continuous sales growth of HANQUYOU and the marketing and selling of HANSIZHUANG. Among which, the marketing expenses ratio of HANQUYOU in domestic market has been decreasing over the years, and to below 40% by 2022.

(VIII) OTHER EXPENSES

For the 12 months ended 31 December 2022, the Group recognised other expenses of approximately RMB264.4 million, which mainly included: (1) investment loss related to the entrusted investment management services by AMTD Global Markets Limited; (2) expenses on pharmaceutical donations; and (3) loss on devaluation of inventories of raw materials, semi-finished products and finished products.

(IX) INCOME TAX EXPENSE

For the 12 months ended 31 December 2022, the Group incurred income tax expense of approximately RMB1.4 million.

(X) LOSS FOR THE YEAR

In view of the above, loss of the Group decreased by approximately RMB288.8 million from approximately RMB984.1 million for the year ended 31 December 2021 to approximately RMB695.3 million for the year ended 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

(XI) LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2022, cash and bank balances of the Group were approximately RMB680.5 million, mainly denominated in Renminbi (“RMB”), United States Dollars (“USD”), New Taiwan Dollars (“NTD”), Hong Kong Dollars (“HKD”) and Euro (“EUR”), compared to cash and bank balances of the Group approximately RMB707.3 million as of 31 December 2021, representing a decrease of approximately RMB26.8 million. Such decrease was mainly due to the daily R&D expenses of the Group.

As of 31 December 2022, the current assets of the Group were approximately RMB2,191.5 million, including cash and cash equivalents of approximately RMB673.5 million, pledged deposits of approximately RMB7.0 million, inventories were approximately RMB757.3 million, trade receivables were approximately RMB455.5 million, and other receivables were approximately RMB138.0 million, and financial assets at fair value through profit or loss amounted to approximately RMB160.2 million.

As at 31 December 2022, the current liabilities of the Group were approximately RMB5,001.6 million, including trade payables of approximately RMB713.6 million, other payables and accruals of approximately RMB1,443.4 million, contract liabilities of RMB322.4 million and interest-bearing bank and other borrowings of approximately RMB2,522.2 million.

As at 31 December 2022, the bank balances in foreign exchange were as follows:

	RMB'000
RMB	552,890
HKD	7,060
USD	115,725
EUR	385
NTD	4,418

	Original amount '000
RMB	552,890
HKD	7,904
USD	16,612
EUR	52
NTD	19,439

(XII) Inventories

Inventories of the Group increased from approximately RMB420.1 million as at 31 December 2021 to approximately RMB757.3 million as at 31 December 2022, mainly due to (1) the increased purchases of raw materials and consumables in line with the clinical trial progress and preparation for commercialised production; (2) more safety stock is prepared with the increasing demand for key commercial products.

(XIII) Trade receivables

As at 31 December 2021 and 31 December 2022, trade receivables from customer contracts were approximately RMB295.7 million and RMB455.5 million, respectively. There were no changes in accounting estimates or key assumptions made in both years.

MANAGEMENT DISCUSSION AND ANALYSIS

	As at 31 December 2022 RMB'000	2021 RMB'000
Within 3 months	373,226	295,741
3 to 6 months	114	—
6 to 12 months	20,877	—
1 to 2 years	61,292	—
Total	455,509	295,741

(XIV) INTEREST-BEARING BANK AND OTHER BORROWINGS

As of 31 December 2022, borrowings from bank and other institutions (exclusive of lease liabilities) of the Group were approximately RMB3,416.0 million. The Group incurred new borrowings for the following reasons: ongoing clinical research trials and preclinical research for drug candidates, selling expenses of commercialisation of products, plant construction and normal operating expenses. The borrowings of the Group were denominated in RMB and USD.

Such borrowings bear interest at fixed annual and floating interest rates. There is no significant seasonal impact on the Group's borrowing requirements.

(XV) MATURITY STRUCTURE OF OUTSTANDING DEBTS

The following table sets forth the maturity structure of outstanding debts as at 31 December 2022 and 31 December 2021, of which lease liabilities were initially recognised upon the adoption of IFRS 16 – Leases on 1 January 2017.

	As at 31 December 2022 RMB'000	2021 RMB'000
Within one year	2,522,155	1,570,674
In the second year	155,864	318,790
In the third to fifth year (inclusive)	704,137	177,956
Over five years	294,939	555,517
Total	3,677,095	2,622,937

(XVI) COLLATERAL AND PLEDGED ASSETS

As at 31 December 2022, the Group's pledged assets in relation to borrowings included property, plant and equipment of approximately RMB664.9 million and land use right of approximately RMB196.8 million. The Group had a deposit of approximately RMB7.0 million due to issuance of letter of guarantee.

(XVII) KEY FINANCIAL RATIOS

	31 December 2022	31 December 2021
Current ratio ⁽¹⁾ :	43.8%	55.7%
Quick ratio ⁽²⁾ :	28.7%	41.5%
Gearing ratio ⁽³⁾ :	64.7%	51.8%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (1) Current ratio is calculated as current assets divided by current liabilities as at the same day.
- (2) Quick ratio is calculated as current assets minus inventories and then divided by current liabilities as of the same day.
- (3) Gearing ratio is calculated as net debt divided by equity attributable to owners of the parent plus net debt, multiplied by 100%. Net debt represents the balance of indebtedness less cash and cash equivalents as at the end of the period.

(XVIII) MATERIAL INVESTMENT

In order to satisfy the expected market demand for drug candidates, the Group is currently constructing a new manufacturing facility in Shanghai, the Songjiang Second Plant, to significantly increase our overall production capacity. We designed the Songjiang Second Plant to incorporate substantially similar manufacturing equipment, technologies and processes as those being used and to be implemented at our Xuhui Facility. This project is expected to become the monoclonal antibody biological drug R&D, pilot test and production base of the Group when completed, which is conducive to further strengthening the Group's R&D capabilities in the field of biomedicine (especially monoclonal antibody biomedicine) and meeting the global commercial production needs of the Group's biosimilar and bioinnovative products.

The Group is expected to invest not more than RMB2.54 billion for the construction of the Phase I project of the Songjiang Second Plant (first stage, second stage and third stage). As at the end of the Reporting Period, the facility is under construction and the subsequent stages of construction will be gradually carried out based on the strategy of the Group. The capital expenditure of the construction of the Songjiang Second Plant will be mainly funded through debt financing.

(XIX) CAPITAL COMMITMENTS AND CAPITAL EXPENDITURES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Construction in progress	624,228	250,773
Plant and machinery	45,116	55,745
Electronic equipment	29,142	14,096
Leasehold improvements	13,754	45,706
Others	–	378
Total	712,240	366,698

We had capital commitments for plant and machinery contracted but not provided for of approximately RMB297.2 million as at 31 December 2022. These capital commitments primarily relate to expenditures expected to be incurred for the purchase of machinery, renovation of our existing laboratories and buildings and the R&D expenditure to be capitalised.

(XX) CONTINGENT LIABILITIES

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

(XXI) MATERIAL ACQUISITIONS AND DISPOSALS

As of 31 December 2022, the Group did not have any material acquisitions and disposals.

(XXII) DIVIDENDS

The Group did not pay or declare any dividend for the year ended 31 December 2022.

IV. RISK MANAGEMENT

(I) FOREIGN EXCHANGE RISK

Up until 31 December 2022, the Group was principally engaged in business in the PRC, in which most of the transactions were settled in RMB with no significant foreign exchange risk. No financial instrument for hedging foreign exchange risk or other hedging purposes was employed.

(II) EXCHANGE RATE RISK

Currently, the major business operation of the Group is in the PRC and most of the revenue and expenses are settled in RMB, which is the Group's reporting currency. With the acceleration of the Group's development in overseas markets, it is expected that the sales revenue and licensing revenue denominated in USD and EUR will increase in the future. Fluctuations in exchange rates may affect the Group's cash flows, revenues, earnings and financial position.

(III) POTENTIAL RISKS

1. MARKET RISK

The biologics market is highly competitive, and the Group's existing commercialised products and products that may be commercialised in the future face competition from pharmaceutical companies around the world in respect of various factors such as indication treatment, drug novelty, drug quality and reputation, breadth of drug portfolio, manufacturing and distribution capacity, drug price, breadth and depth of customer coverage, consumer behaviour and supply chain relationships. The Group's ability to remain competitive depends to a large extent on our ability to innovate, develop and promote new products and technologies that meet market needs in a timely manner to capture market share. At the same time, in October 2020, in the "Response to the Recommendation of No. 6450 of the Third Session of the 13th NPC", the National Healthcare Security Administration stated that centralised volume-based procurement will commence at an appropriate time, after considering the factors of the biosimilar similarity, production capacity and supply chain stability of companies and the clinical substitutability of specific products. Currently, certain biosimilar has already been included in the application scope of centralised drug procurement at the provincial level. If any of our products are included in the centralised volume-based procurement in the future, our rivals (if they are evaluated on equivalence) may also choose to participate in tenders and be included in centralised procurement, hence bringing potential impact on the pricing of the drugs.

2. BUSINESS AND OPERATIONAL RISK

The global biologics market is constantly evolving, and the Group invests significant amounts of human and capital resources for R&D, to develop, enhance or acquire technologies that will allow the Group to expand the scope and improve the quality of the services. Currently, the commercially available products of the Group include: HANLIKANG, HANQUYOU, HANDAYUAN, HANBEITAI and HANSIZHUANG. Most of the Group's drug candidates are still under development and are in the clinical development stages, and the course of clinical development involves a lengthy and expensive process with uncertainties in various aspects, as there can be no assurance from the Group of the development and clinical results. Furthermore, if the clinical development and regulatory approval process of the drug candidates are delayed or terminated, the successful development and commercialisation of the Group's drug candidates in a timely manner may be adversely affected.

MANAGEMENT DISCUSSION AND ANALYSIS

3. POTENTIAL RISKS OF COVID-19

After the outbreak of COVID-19, the Group immediately adopted anti-epidemic measures, to secure employees' safety and guarantee to carry out a variety of work duties in an orderly manner. In the first half of 2022, the repeated spread of COVID-19 in Shanghai and other cities in China exerted certain negative impacts on the Group's operations in China. Although the epidemic situation has eased during the second half of 2022, there are still uncertainties on its impacts on China and the world in the future.

4. FORCE MAJEURE RISK

Our business, financial condition and results of operations may be materially and adversely affected by natural disasters or other unanticipated catastrophic events such as earthquakes, fires, terrorist attacks and wars. For example, the ability of our facilities to operate may be impaired, our equipment may be damaged, the development timeline of our drug candidates may be prolonged and even there may be a decrease in the demand for our products. The occurrence of any such event could adversely affect our business and financial condition.

V. EMPLOYEES AND REMUNERATION POLICIES

The following table sets forth the breakdown of our employees by function as at 31 December 2022:

Function	Number of employees
R&D and technology	1,130
Manufacturing	966
Commercial Operation	1,045
General and administrative	265
Total	3,406

The individual employment contracts entered into by the Group with our employees set out terms such as salaries, bonuses, grounds for termination and confidentiality. Employment contracts with our R&D personnel also typically contain a non-competition clause. The Group also provides benefits to our employees as part of their compensation package which we believe are in line with industry norms. For example, PRC-based employees are entitled to employee benefits as mandated by the PRC Social Insurance Law and Regulations on the Administration of Housing Provident Fund, including pension, basic medical insurance, maternity insurance, work-related injury insurance, unemployment insurance and housing provident fund. To stay competitive in the market for talents, we have also adopted share award schemes to give incentives to our employees. The Group emphasises on-the-job training as a constant and ongoing objective for the employees. All employees participate in formal training on an annual basis, where the Group focuses on the latest technical developments and updates in regulatory requirements.

REPORT OF THE BOARD OF DIRECTORS

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The Company is principally engaged in (i) R&D, production and sale of monoclonal antibody (mAb) drugs and the provision of related technical services (except for the development and application of human stem cells, genetic diagnosis and therapy technology) and (ii) the transfer of its own technology and provision of the related technology consultation services.

Details of the principal activities of the subsidiaries of the Company are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2022 are set out in the Consolidated Statement of Profit or Loss on page 100.

The Board does not recommend a final dividend for the Reporting Period.

PROFIT DISTRIBUTION PLAN

The Company has adopted a profit distribution administration policy. According to the policy, the Company may distribute its dividend by means of cash, shares or a combination of cash and shares, and will give priority to distribution of cash dividends. Subject to the full distribution of cash dividends and a reasonable equity size and shareholding structure of the Company, the Company may make profit distribution by allocating dividend in shares in order to align the expansion of equity with performance growth. The Board shall comprehensively take account of the features of the industry where the Company operates, its stage of development, its own business model, and profitability and other factors such as whether there is any significant capital expenditure arrangement in forming practicable profit distribution plans. The specific plan for distribution shall be decided by the Shareholders at the general meeting according to the Company's actual operation results of the year.

BUSINESS REVIEW

The business review of the Group for the Reporting Period is set out in the sections headed "Chairman's Statement" on pages 4 to 5 and "Management Discussion and Analysis" on pages 15 to 46, respectively of this annual report. A discussion on the Company's social responsibility, environmental policies and performance is also set out in "Management Discussion and Analysis". All references to other sections or reports in this annual report form part of this Report of the Board of Directors.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The notice of the forthcoming annual general meeting has been published and dispatched to Shareholders of the Company in accordance with the requirements of the Listing Rules and the Articles of Association. The period of closure of register of members has been announced in the notice of annual general meeting dated 25 April 2023.

SUMMARY OF FINANCIAL INFORMATION

A summary of the financial information for the last five financial years, as extracted from the audited financial statements, is set out in the section headed "Five Years' Financial Summary" on page 7 of this annual report.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company and its subsidiaries as of 31 December 2022 are set out in note 26 to the financial statements.

REPORT OF THE BOARD OF DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and its subsidiaries during the Reporting Period are set out in note 14 to the financial statements.

CHARGE ON ASSETS

As of 31 December 2022, the total amount of RMB196.8 million in right-of-use asset was pledged to banks as loan security (31 December 2021: RMB201.1 million). The total amount of RMB664.9 million in property, plant and equipment was pledged to banks as loan security (31 December 2021: RMB364.1 million).

Details of collateral and pledged assets are set out in the section headed “Collateral and Pledged Assets” on page 43 of this annual report.

SHARE CAPITAL

Details of movements in the Company’s share capital during the Reporting Period are set out in note 30 to the financial statements.

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

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

DISTRIBUTABLE RESERVES

As of 31 December 2022, the Company did not have any distributable reserves.

Details of the movements in the respective reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 103.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the total amount of purchases attributable to the Group’s five largest suppliers was 17.9% of the total purchases of the Group. The total amount of purchases attributable to the Group’s largest supplier was 4.7% of the total purchases of the Group. The total amount of revenue attributable to the Group’s five largest customers was 35.9% of the total revenue of the Group. The total amount of revenue attributable to the Group’s largest customer was 18.1% of the total revenue of the Group.

During the Reporting Period, other than Jiangsu Fosun and Fosun Pharma Industrial Development (each a wholly-owned subsidiary of Fosun Pharma), to the knowledge of the Directors, none of the Directors or any of their close associates, or any Shareholders of the Company (which, to the knowledge of the Directors, owned more than 5% of the issued Shares of the Company) had interests in the five largest suppliers or customers of the Group.

DIRECTORS

Unless otherwise stated, the following is the list of the Directors during the Reporting Period and as of the Latest Practicable Date:

EXECUTIVE DIRECTOR

Mr. Wenjie Zhang (*Chairman and chief executive officer*)

NON-EXECUTIVE DIRECTORS

Mr. Qiyu Chen
Mr. Yifang Wu
Ms. Xiaohui Guan
Mr. Deyong Wen¹
Mr. Zihou Yan
Dr. Aimin Hui²

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tak Young So
Dr. Lik Yuen Chan
Dr. Guoping Zhao
Dr. Ruilin Song

SUPERVISORS

The following is the list of the Supervisors during the Reporting Period and as of the Latest Practicable Date:

Ms. Rongli Feng (*Chairman*)
Mr. Deli Kong
Ms. Junhong Liu³
Mr. Yexing Yuan⁴

Notes:

1. Mr. Deyong Wen was appointed as a non-executive Director on 28 July 2022.
2. Dr. Aimin Hui resigned as a non-executive Director on 28 July 2022.
3. Ms. Junhong Liu resigned as a Supervisor on 31 December 2022.
4. Mr. Yexing Yuan was appointed as a Supervisor on 1 January 2023.

REPORT OF THE BOARD OF DIRECTORS

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and the senior management of the Company are set out on pages 86 to 93 of this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a letter of appointment with the Company for a term of three years, subject to the provision of retirement and rotation of Directors and Supervisors under the Articles of Association.

None of the Directors and Supervisors has an unexpired service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REMUNERATION POLICY

The remuneration policy of the Group is set out in the section headed "Management Discussion and Analysis" on page 46 of this annual report.

Executive Director does not receive remuneration for acting as Director of the Company but is entitled to salaries for the services in connection with the management of the affairs of the Group. Non-executive Directors do not receive any emolument. The remuneration of independent non-executive Directors is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of the Group. Details of the remuneration of the Directors, Supervisors and chief executives and the five highest paid employees are set out in notes 9 and 10 to the financial statements.

The remuneration of senior management of the Company by band (including share-based payment) for the Reporting Period is set out below:

	Number of senior management
RMB Nil to RMB2,000,000	2
RMB2,000,001 to RMB4,000,000	2
RMB4,000,001 to RMB6,000,000	3
RMB6,000,001 to RMB8,000,000	1
RMB8,000,001 to RMB10,000,000	—
RMB10,000,001 to RMB20,000,000	2

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Related Party Transactions", there is no transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who at any time in the Reporting Period was a Director/Supervisor or his or her connected entity had, directly or indirectly, a material interest subsisted at any time during the Reporting Period or at the end of the Reporting Period.

PENSION SCHEME

The full-time employees of the Group are covered by various government-regulated defined contribution retirement benefit schemes under which the employees are entitled to a monthly pension. The Group contributes a percentage of the employees' salaries (subject to maximum caps) to these retirement benefit schemes on a monthly basis. Under these schemes, the Group has no legal obligation for retirement benefits beyond the contributions made. Contributions to these schemes are expensed as incurred. There were no forfeited contributions available for the Group to reduce its existing level of contributions to the defined contribution scheme as at 31 December 2022. The pension cost paid by the Group during the Reporting Period was RMB88.8 million.

REPORT OF THE BOARD OF DIRECTORS

MANAGEMENT CONTRACT

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except as disclosed in this annual report, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during the Reporting Period or at the end of the Reporting Period.

DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

None of the Directors or Supervisors is interested in any businesses apart from the Group's business which competes with or is likely to compete, either directly or indirectly, with the Group's business.

DIRECTORS'/SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, none of the Directors/Supervisors and chief executives of the Company has interest and short positions in the shares of the Company, or short positions in the underlying shares and debentures of the Company's associated corporations (within the meaning of Part XV of the SFO). The interest or long positions of Directors, Supervisors and chief executives of the Company in the underlying shares and debentures of any of its associated corporations of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise should be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

INTEREST IN SHARES OF THE ASSOCIATED CORPORATION

Name	Name of the associated corporation	Nature of interest and capacity	Class	Number of shares	Approximate Percentage in relevant class of shares
Wenjie Zhang	HenLink, Inc.	Beneficial owner	Ordinary Shares	1,000,000	6.30%
	Fosun International	Beneficial owner	Share Option	200,000	0.00%
Qiyu Chen	Fosun International	Beneficial owner	Ordinary Shares	13,156,400	0.16%
	Fosun International	Beneficial owner	Share Option	13,850,000	0.17%
Yifang Wu	Fosun Pharma	Beneficial owner	A Shares	114,075	0.01%
	Fosun Tourism Group	Beneficial owner	Ordinary Shares	501,478	0.04%
	Fosun Pharma	Beneficial owner	H Shares	373,000	0.07%
	Fosun Pharma	Beneficial owner	A Shares	1,007,100	0.05%
Xiaohui Guan	Fosun Pharma	Beneficial owner	A Shares	393,100	0.02%
	Fosun Pharma	Beneficial owner	H Shares	25,000	0.00%
	Fosun International	Beneficial owner	Ordinary Shares	200,000	0.00%
	Fosun International	Beneficial owner	Share Option	800,000	0.01%
Deyong Wen	Fosun Pharma	Beneficial owner	A Shares	207,100	0.01%
	Fosun Pharma	Beneficial owner	H Shares	20,000	0.00%
Zihou Yan	Fosun Pharma	Beneficial owner	A Shares	46,800	0.00%
Rongli Feng	Fosun Pharma	Beneficial owner	A Shares	113,500	0.01%
Deli Kong	Fosun Pharma	Beneficial owner	A Shares	27,200	0.00%

REPORT OF THE BOARD OF DIRECTORS

INTEREST IN DEBENTURES OF THE ASSOCIATED CORPORATION

Name	Name of the associated corporation	Nature of interest and capacity	Class	Amount of debentures
Qiyu Chen	Fortune Star (BVI) Limited	Beneficial owner	Debentures	1,478,241USD
Yifang Wu	Fortune Star (BVI) Limited	Beneficial owner	Debentures	739,121USD

Save as disclosed in the foregoing, during the Reporting Period, none of the Directors/Supervisors or chief executive of the Company had any interests or short/long positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

During the Reporting Period, no rights to acquire benefits by means of the acquisition of shares, underlying shares or debentures of the Company were granted to any Directors/Supervisors or chief executive or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement which enabled the Directors/Supervisors or chief executive to acquire such rights in any other corporation.

REPORT OF THE BOARD OF DIRECTORS

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

As of 31 December 2022, the following persons (other than the Directors/Supervisors or chief executive of the Company) had the following interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of Part XV of the SFO:

Name of Shareholder	Nature of interest and capacity	Class	Number of shares	Approximate percentage relevant class of shares	Approximate percentage in total shares
Fosun New Medicine	Beneficial owner	Domestic Shares	265,971,569	73.03%	48.94%
Fosun Pharma Industrial Development ⁽¹⁾	Beneficial owner	Domestic Shares	25,393,818	6.97%	4.67%
	Interest in controlled entity	Domestic Shares	265,971,569	73.03%	48.94%
Fosun Pharma ⁽²⁾	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	34,160,639	20.90%	6.29%
Fosun High Tech ⁽³⁾	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	34,160,639	20.90%	6.29%
Fosun International ⁽⁴⁾	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	34,160,639	20.90%	6.29%
FHL ⁽⁵⁾	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	34,160,639	20.90%	6.29%
FIHL ⁽⁶⁾	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	34,160,639	20.90%	6.29%
Guangchang Guo ⁽⁷⁾	Interest in controlled entity	Domestic Shares	291,365,387	80.00%	53.61%
		H Shares	34,160,639	20.90%	6.29%
Fosun Industrial	Beneficial owner	H Shares	30,968,300	18.95%	5.70%
	Security interest	H Shares	3,192,339	1.95%	0.59%
Al Rayyan Holding LLC	Beneficial owner	H Shares	11,370,960	6.96%	2.09%
Qatar Holding LLC ⁽⁸⁾	Interest in controlled entity	H Shares	11,370,960	6.96%	2.09%
Qatar Investment Authority ⁽⁸⁾	Interest in controlled entity	H Shares	11,370,960	6.96%	2.09%
DIC Holding LLC	Beneficial owner	H Shares	2,842,740	1.74%	0.52%
Qatar Investment Authority (in the capacity of investment manager of DIC Holding LLC) ⁽⁹⁾	Interest in controlled entity	H Shares	2,842,740	1.74%	0.52%
Cayman Henlius ⁽¹⁰⁾	Beneficial owner	H Shares	43,756,960	26.77%	8.05%
Wei-Dong Jiang ⁽¹¹⁾	Beneficial owner	H Shares	720,955	0.44%	0.13%
	Interest in controlled entity	H Shares	43,756,960	26.77%	8.05%
Scott Shi-Kau Liu ⁽¹²⁾	Beneficial owner	H Shares	2,410,695	1.48%	0.44%
	Interest in controlled entity	H Shares	43,756,960	26.77%	8.05%
HenLink	Beneficial owner	Unlisted Foreign Shares	15,876,694	100%	2.92%

REPORT OF THE BOARD OF DIRECTORS

Notes:

- (1) As at 31 December 2022, Fosun New Medicine was wholly owned by Fosun Pharma Industrial Development. Fosun Pharma Industrial Development was deemed to be interested in the Domestic Shares which Fosun New Medicine was interested in.
- (2) On 24 December 2019, Cayman Henlius pledged a total of 3,192,339 H Shares to Fosun Industrial, therefore Fosun Industrial had security interest in these H Shares. As of 31 December 2022, Fosun Pharma Industrial Development and Fosun Industrial were wholly owned by Fosun Pharma. Fosun Pharma was deemed to be interested in the Domestic Shares and H Shares which Fosun Pharma Industrial Development and Fosun Industrial were interested in.
- (3) As at 31 December 2022, Fosun High Tech held approximately 35.82% of the shares in Fosun Pharma, Fosun High Tech was deemed to be interested in the Domestic Shares and H Shares which Fosun Pharma was interested in.
- (4) As at 31 December 2022, Fosun High Tech was wholly owned by Fosun International. In addition, Fosun International held approximately 0.22% of the shares in Fosun Pharma. Fosun International was deemed to be interested in the Domestic Shares and H Shares which Fosun High Tech and Fosun Pharma were interested in.
- (5) As at 31 December 2022, FHL directly held approximately 73.53% of the shares in Fosun International. FHL was deemed to be interested in the Domestic Shares and H Shares which Fosun International was interested in.
- (6) As at 31 December 2022, FHL was wholly owned by FIHL. FIHL was deemed to be interested in the Domestic Shares and H Shares which FHL was interested in.
- (7) As at 31 December 2022, Mr. Guangchang Guo held approximately 85.29% of the shares in FIHL. Mr. Guangchang Guo was deemed to be interested in the Domestic Shares and H Shares which FIHL was interested in.
- (8) As at 31 December 2022, Al Rayyan Holding LLC was wholly owned by Qatar Holding LLC, which was wholly owned by Qatar Investment Authority. Qatar Holding LLC and Qatar Investment Authority were deemed to be interested in the H Shares which Al Rayyan Holding LLC was interested in.
- (9) As at 31 December 2022, DIC Holding LLC was wholly owned by Qatar Investment Authority (in the capacity of investment manager of DIC Holding LLC). Qatar Investment Authority (in the capacity of investment manager of DIC Holding LLC) was deemed to be interested in the H Shares which DIC Holding LLC was interested in.
- (10) As at 31 December 2022, Cayman Henlius was held by Dr. Scott Shi-Kau Liu and Dr. Wei-Dong Jiang as to approximately 64.20% and 35.80% of the total equity interests, respectively. On 24 December 2019, Cayman Henlius pledged a total of 3,192,339 H Shares to Fosun Industrial, a wholly owned subsidiary of Fosun Pharma, while Cayman Henlius continues to be the beneficial owner of such Shares.
- (11) As at 31 December 2022, Dr. Wei-Dong Jiang held approximately 35.80% of the shares in Cayman Henlius. Dr. Wei-Dong Jiang was deemed to be interested in the H Shares which Cayman Henlius was interested in.
- (12) As at 31 December 2022, Dr. Scott Shi-Kau Liu held approximately 64.20% of the shares in Cayman Henlius. Dr. Scott Shi-Kau Liu was deemed to be interested in the H Shares which Cayman Henlius was interested in.

Save as disclosed herein, there is no other person known to the Directors/Supervisors or chief executive of the Company who, as of 31 December 2022, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 under Part XV of the SFO or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

PERMITTED INDEMNITY

Pursuant to the Articles of Association, subject to the applicable laws and regulations, every Director and Supervisor shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the Directors and supervisors of the Group.

SHARE OPTION SCHEME

For the year ended 31 December 2022, the Company did not have any share option scheme.

SHARE AWARD SCHEME

The Company adopted the 2018 Share Award Scheme effective on 14 April 2018 for the purpose of promoting the establishment of a sound and effective incentive mechanism to fully motivate the employees of the Group, effectively align the interests of the Shareholders, the Group and the individuals, so as to form an interest- and risk-sharing mechanism among the Shareholders and the employees as well as attracting and retaining outstanding talents to ensure the realisation of the Group's long-term development goals. The 2018 Share Award Scheme comprised two parts, onshore participants who were Mainland Chinese citizens (the "2018 Onshore Participants") would become limited partners of Shanghai Guoyun and offshore participants who were not Mainland Chinese citizens (the "2018 Offshore Participants", together with the 2018 Onshore Participants, the "2018 Participants") would become shareholders of HenLink. As at the adoption time of the 2018 Share Award Scheme, Shanghai Guoyun and HenLink were immediate Shareholders of the Company which held 11,714,650 Shares and 11,035,350 Shares pursuant to the 2018 Share Award Scheme, respectively. The 2018 Onshore Participants were responsible for the capital contribution made by Shanghai Guoyun to the Company in respect of the Shares issued to Shanghai Guoyun and the 2018 Offshore Participants were responsible for the capital contribution made by HenLink to the Company in respect of the Shares under the 2018 Share Award Scheme held by HenLink. In September 2018, Shanghai Guoyun and HenLink have settled their respective capital contribution to the Company using funds contributed by the relevant employees of the Group pursuant to the 2018 Share Award Scheme at a subscription price of RMB9.21 per Share.

All the grants under the 2018 Share Award Scheme were made in 2018 on a one-off basis. On 14 April 2018 (the "Date of 2018 Grant"), pursuant to the 2018 Share Award Scheme, a total of 22,750,000 Shares (i.e. 11,714,650 Shares and 11,035,350 Shares held by Shanghai Guoyun and HenLink respectively), representing approximately 4.19% of the total issued Shares of the Company as at the date of this annual report, were indirectly granted to the 2018 Participants through the 2018 Participants subscribing for shares in Shanghai Guoyun (in respect of employees who are Mainland Chinese citizens) and HenLink (in respect of employees who are not Mainland Chinese citizens) and thereby becoming indirect Shareholders of the Company. There was no maximum entitlement of each 2018 Participant under the 2018 Share Award Scheme. The 2018 Participants included the members of senior management of the Company and core technical personnel of the Company and its subsidiaries.

REPORT OF THE BOARD OF DIRECTORS

On 10 December 2020, the Company amended the terms of the 2018 Share Award Scheme. The major amendments relate to, among other things, the transfer restrictions on incentive shares and the special adjustment mechanism. Details of the 2018 Share Award Scheme and amendments to the 2018 Share Award Scheme are set out in notes 32 to the financial statements.

The table below sets out the arrangement in relation to the release of the restrictions on the Shares indirectly held by the 2018 Participants in tranches (after amendments to the 2018 Share Award Scheme):

Categories of 2018 Participants	Arrangement in relation to the release of the restrictions	Date of releasing the restrictions	Percentage of Shares which restrictions will be released	Conditions for releasing the restrictions
Category I Participants	First tranche	30 April 2020	60%	The conditions for releasing the restrictions comprised two parts, namely the Company achieving certain milestones in respect of its products and the participants passing annual performance review. The percentage of Shares in respect of which the conditions may be released will depend on the achievement level of those conditions. In relation to the Shares in respect of which the restrictions have been released, such Shares can only be transferred after the date of release of such restrictions.
	Second tranche	30 April 2021	20%	
	Third tranche	30 April 2022	20%	
Category II Participants	First tranche	30 April 2020	35%	
	Second tranche	30 April 2021	30%	
	Third tranche	30 April 2022	35%	
Category III Participants	First tranche	30 April 2020	20%	
	Second tranche	30 April 2021	25%	
	Third tranche	30 April 2022	55%	

The 2018 Share Award Scheme shall be valid from the Date of 2018 Grant to the date on which all Shares indirectly held by the 2018 Participants have been unlocked or otherwise repurchased and cancelled.

REPORT OF THE BOARD OF DIRECTORS

In addition, on 10 December 2020, the Company adopted the 2020 Share Award Scheme as certain participants in the 2018 Share Award Scheme were no longer employed by the Group and had to assign their Restricted Interests under the 2018 Share Award Scheme. The purposes of the 2020 Share Award Scheme are, amongst others, to promote the establishment of a sound and effective incentive mechanism to fully motivate the employees of the Group, effectively align the interests of the Shareholders, the Group and the individuals, so as to form an interest- and risk-sharing mechanism among the Shareholders and the employees; and to attract and retain outstanding talents to ensure the realisation of the Group's long-term development goals. Pursuant to the 2020 Share Award Scheme, the 2020 Participants, including Directors, senior management and other employees of the Group (the **"2020 Participants"**), would acquire the Restricted Interests (comprised of 360,700 Domestic Shares and 2,420,000 unlisted foreign Shares, representing approximately 0.51% of the issued Shares of the Company as at the date of this annual report) from the Resigned Participants of the 2018 Share Award Scheme at an acquisition price determined by reference to the original acquisition costs of such Restricted Interests in accordance with the terms of the 2018 Share Award Scheme and subject to applicable rules and regulations. Such price shall be paid by the 2020 Participants within a period determined by the Company. There was no maximum entitlement of each 2020 Participant under the 2020 Share Award Scheme. The 2020 Participants will acquire the Restricted Interests from the Resigned Participants under the 2018 Share Award Scheme. Details of the 2020 Share Award Scheme are set out in notes 32 to the financial statements. All the share awards under the 2020 Share Award Scheme were made on 10 December 2020 (**"Date of 2020 Grant"**) on a one-off basis. The table below sets out the arrangement in relation to the release of the restrictions on the Shares indirectly held by the 2020 Participants in tranches:

Categories of 2020 Participants	Arrangement in relation to the release of the restrictions	Date of releasing the restrictions	Percentage of Shares which restrictions will be released	Conditions for releasing the restrictions
Category I Participants	First tranche	30 April 2021	60%	The conditions for releasing the restrictions comprised two parts, namely (1) the Company achieving certain milestones in respect of its research and development status, revenue and the construction progress of manufacturing facilities to be determined at the discretion of the Board, and (2) the 2020 Participants passing annual performance review. The percentage of Shares in respect of which the conditions may be released will depend on the achievement level of those conditions. In relation to the Shares in respect of which the restrictions have been released, such Shares can only be transferred after the date of release of such restrictions.
	Second tranche	30 April 2022	20%	
	Third tranche	30 April 2023	20%	
Category II Participants	First tranche	30 April 2021	20%	
	Second tranche	30 April 2022	25%	
	Third tranche	30 April 2023	55%	

The 2020 Share Award Scheme shall be valid from the Date of 2020 Grant to the date on which all Shares indirectly held by the 2020 Participants have been unlocked or otherwise repurchased and cancelled.

REPORT OF THE BOARD OF DIRECTORS

Set out below are the movements of the awards under the 2018 Share Award Scheme and the 2020 Share Award Scheme during the Reporting Period:

Grantees ²	2018 Share Award Scheme ¹					
	Unvested as at 1 January 2022		Vested during the Reporting Period		Unvested as at 31 December 2022	
	Number	Vesting period	Number	Weighted average closing price of the shares immediately before the dates on which the awards were vested (HKD)	Number	Vesting period
Other grantees by category	2,160,700	30 April 2022	2,080,900	19.42	79,800 ³	-

Grantees	2020 Share Award Scheme ⁴						
	Unvested as at 1 January 2022		Re-granted during the Reporting Period	Vested during the Reporting Period		Unvested as at 31 December 2022	
	Number	Vesting period	Number	Number	Weighted average closing price of the shares immediately before the dates on which the awards were vested (HKD)	Number	Vesting period
WENJIE ZHANG <i>Executive Director and CEO</i>	275,000	30 April 2022	42,000 ⁵	308,600	19.42	283,400	30 April 2023
	275,000	30 April 2023					
Five highest paid individuals ⁶	448,138	30 April 2022	42,000 ⁵	481,738	19.42	599,502	30 April 2023
	591,102	30 April 2023					
Other grantees by category	156,290	30 April 2022	0	138,290	19.42	193,790 ⁷	30 April 2023
	217,790	30 April 2023					

REPORT OF THE BOARD OF DIRECTORS

1. All the share awards under the 2018 Share Award Scheme were made on 14 April 2018 on a one-off basis. No share awards were re-granted, cancelled or lapsed during the Reporting Period, and no additional consideration is required from the 2018 Participants at the time of vesting of the share awards.
2. The 2018 Participants exclude the Directors, CEO and five highest paid individuals of the Company.
3. 79,800 outstanding share awards due to resignation of employees have not been re-granted in accordance with the 2018 Share Award Scheme during the Reporting Period.
4. All the share awards under the 2020 Share Award Scheme were made on 10 December 2020 on a one-off basis. No share awards were cancelled or lapsed during the Reporting Period, and no additional consideration is required from the 2020 Participants at the time of vesting of the share awards.
5. Considering that some participants withdrew from the 2020 Share Award Scheme due to resignation, the Remuneration Committee of the Board of Directors agreed to assign a total of 42,000 unrestricted share awards to Mr. WENJIE ZHANG, and arrange vesting matters according to the specific provisions of the 2020 Share Award Scheme on 28 February 2022. The closing price of the Shares immediately before the date on which the awards were granted was HK\$22.5, and such unrestricted share awards will vest on 30 April 2023. The aggregate fair value of the shares granted amounted to approximately RMB396,000 (42,000 shares with RMB9.44 per share), and the fair value is determined by the stock price on the date of grant of the share awards.
6. The information includes the grants to WENJIE ZHANG who is categorized as "five highest paid individuals".
7. Includes 44,000 outstanding share awards due to resignation of employees which have not been re-granted in accordance with the 2020 Share Award Scheme during the Reporting Period.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group during the Reporting Period or subsisted at the end of the Reporting Period.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, during the Reporting Period, the Company has maintained sufficient public float as required by the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the Articles of Association or under the applicable laws of the PRC where the Company is incorporated.

DONATIONS

During the Reporting Period, the Group made donations of RMB27.5 million.

REPORT OF THE BOARD OF DIRECTORS

ONE-OFF CONNECTED TRANSACTION

TECHNICAL SERVICES AGREEMENT

On 16 March 2022, the Company entered into the Fosun Pharma Industrial Technical Services Agreement with Fosun Pharma Industrial Development at a consideration of RMB32,556,300, pursuant to which the Company agreed to provide Chemistry, Manufacturing and Control(CMC) and preclinical toxicological research services to Fosun Pharma Industrial Development in relation to an antibody drug FS2101 being developed by Fosun Pharma Industrial. Fosun Pharma Industrial is a subsidiary of Fosun Pharma (a controlling shareholder of the Company), therefore Fosun Pharma Industrial is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the transactions under the Fosun Pharma Industrial Technical Services Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. This Agreement is considered as a one-off connected transaction and is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement.

Given that Fosun Pharma Industrial Development licensed the antibody drug FS2101 to Xinghao Pengbo, a subsidiary of Fosun Pharma, and for the purpose of ensuring seamless services to be provided in respect of FS2101, on 28 March 2022, the Company entered into the Xinghao Pengbo Technical Services Agreement with Xinghao Pengbo at a consideration of RMB35,268,000, pursuant to which the Company agreed to provide additional CMC and preclinical bioanalysis technical services to Xinghao Pengbo in relation to FS2101, the antibody drug, with a view to supporting Xinghao Pengbo to complete IND application and related work of clinical trial. Xinghao Pengbo is a subsidiary of Fosun Pharma (a controlling shareholder of the Company), therefore Xinghao Pengbo is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the transactions under the Xinghao Pengbo Technical Services Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As the Fosun Pharma Industrial Technical Services Agreement and the Xinghao Pengbo Technical Services Agreement were entered into with parties connected with one another within a 12-month period, the transactions under the Fosun Pharma Industrial Technical Services Agreement and the Xinghao Pengbo Technical Services Agreement are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules. The agreement is considered as a one-off connected transaction after aggregation with the Fosun Pharma Industrial Technical Services Agreement and is subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirement under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

PROPERTY LEASING FRAMEWORK AGREEMENT

On 31 December 2019, the Company entered into a Property Leasing Framework Agreement (the "2019 Property Leasing Framework Agreement") with Clone High Tech, a wholly-owned subsidiary of Fosun Pharma, pursuant to which, the Group has agreed to lease premises to Clone High Tech for its use as manufacturing facilities, laboratories and/or office buildings from time to time, for a period of three years commencing from 1 January 2020 and ending on 31 December 2022.

Clone High Tech is a wholly-owned subsidiary of Fosun Pharma, the controlling shareholder of the Company. Therefore, Clone High Tech is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, under Chapter 14A of the Listing Rules, the entering into of the 2019 Property Leasing Framework Agreement constitutes a continuing connected transaction of the Company.

The annual cap of the right-of-use assets relating to the leases entered into by the Group with Fosun Pharma and/or their associates in relation to the leasing of property under the 2019 Property Leasing Framework Agreement for the year ended 31 December 2022 amounted to approximately RMB54.0 million.

On 17 November 2022, the Company entered into the Clone Property Leasing Framework Agreement and the Fukun Property Leasing Framework Agreement with Clone High Tech and Fukun Pharmaceutical (collectively, "the 2022 Property Leasing Framework Agreements"), respectively, pursuant to which the Group has agreed to lease premises from Clone High Tech and Fukun Pharmaceutical for its use as manufacturing facilities, laboratories and/or office buildings from time to time, for a period of three years commencing from 1 January 2023 and ending on 31 December 2025.

REPORT OF THE BOARD OF DIRECTORS

Both of Clone High Tech and Fukun Pharmaceutical are wholly-owned subsidiaries of Fosun Pharma, the controlling shareholder of the Company. Therefore, each of Clone High Tech and Fukun Pharmaceutical is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the entering into the 2022 Property Leasing Framework Agreements, including the Clone Property Leasing Framework Agreement and Fukun Property Leasing Framework Agreement, constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The total value of the right-of-use assets relating to the leases entered into by the Group with Clone High Tech and Fukun Pharmaceutical and/or their associates in relation to the leasing of property under the 2022 Property Leasing Framework Agreements, including the Clone Property Leasing Framework Agreement and the Fukun Property Leasing Framework Agreement for the three years ended 31 December 2023, 2024 and 2025 are expected not to exceed RMB113.24 million, RMB34.81 million and RMB135.66 million, respectively.

PROMOTIONAL SERVICES AGREEMENT

On 24 August 2020 and 31 December 2020, Henlius Biopharmaceuticals, a wholly-owned subsidiary of the Company, entered into the Promotional Services Agreement and Supplemental Agreement with Jiangsu Fosun to engage Jiangsu Fosun to provide promotional services in relation to HANQUYOU to the Group from 24 August 2020 to 30 June 2022. As the Group continues to engage Jiangsu Fosun to provide the promotional services, Henlius Biopharmaceuticals renewed the Promotional Services Agreement ("Promotional Services Agreement (2022 Renewal)") with Jiangsu Fosun on 30 June 2022 to extend the term of the Promotional Services Agreement for a further term from 1 July 2022 to 31 December 2023.

Jiangsu Fosun is a wholly-owned subsidiary of Fosun Pharma (a controlling shareholder of the Company), therefore, Jiangsu Fosun is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the transactions under the Promotional Services Agreement (2022 Renewal) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The maximum annual transaction amount (on a tax-exclusive basis) to be paid by the Group to Jiangsu Fosun under the Promotional Services Agreement ((2022 Renewal) for the year ended 31 December 2022 and the year ended 31 December 2023 will not exceed RMB28 million and RMB48 million, respectively.

ADMINISTRATIVE FRAMEWORK AGREEMENT

On 24 June 2020, the Company entered into an Administrative Framework Agreement with Fosun High Tech to set out the framework terms governing the procurement of services and products for administrative purposes, including without limitation, office supplies, employee medical benefits and personnel training services between the Group and the Remaining Fosun High Tech Group. On 31 December 2020, the Company and Fosun High Tech renewed the Administrative Framework Agreement, extending the term of the Administrative Framework Agreement by one year from 31 December 2020 to 31 December 2021. As the expiry date of the Administrative Framework Agreement is 31 December 2021, the Company renewed the Administrative Framework Agreement with Fosun High Tech for a further term of one year from 1 January 2022 to 31 December 2022 on 31 December 2021.

Fosun High Tech was interested in approximately 35.82% of the total issued ordinary shares of Fosun Pharma, which in turn indirectly held approximately 57.48% of the Shares of the Company in issue as at 31 December 2022. Accordingly, each of Fosun High Tech and Fosun Pharma is a connected person of the Company. Therefore, the transactions under the Administrative Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The maximum transaction amount (on a tax-exclusive basis) to be paid by the Group to the Remaining Fosun High Tech Group under the Administrative Framework Agreement for the year ended 31 December 2022 will not exceed RMB9.5 million.

REPORT OF THE BOARD OF DIRECTORS

CLINICAL TRIAL RESEARCH SERVICES AGREEMENT

On 24 November 2022, the Company entered into the Clinical Trial Research Services Agreement with Genuine Biotech and Fosun Pharma Industrial Development, pursuant to which the Company agreed to provide clinical trial research services in relation to the prevention of SARS-Cov-2 of Azvudine, including clinical study design and management services, to Genuine Biotech and Fosun Pharma Industrial Development.

Fosun Pharma Industrial Development is a wholly-owned subsidiary of Fosun Pharma, the controlling shareholder of the Company. Therefore, Fosun Pharma Industrial Development is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the transactions under the Clinical Trial Research Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The maximum transaction amount to be paid by Fosun Pharma Industrial Development to the Company with respect to provision of the services under the Clinical Trial Research Services Agreement for the period from 24 November 2022 to 31 December 2022 and the period from 1 January 2023 to 23 November 2023 will not exceed RMB30 million and RMB30 million, respectively. On March 31, 2023, the Company increased the relevant annual cap for the period from 1 January 2023 to 23 November 2023 to RMB73 million.

SINOPHARM PROCUREMENT FRAMEWORK AGREEMENT

On 24 April 2020, the Company entered into a Sinopharm Procurement Framework Agreement to procure (i) warehousing and logistics services, and (ii) raw materials, including reagent, from Sinopharm Group.

The initial term of the Sinopharm Procurement Framework Agreement expired on 31 December 2022. The Company and Sinopharm continues to enter into the transactions contemplated under the Sinopharm Procurement Framework Agreement after 31 December 2022. On 17 November 2022, the parties have agreed that the term of the Sinopharm Procurement Framework Agreement shall be automatically renewed in accordance with its terms for a further term of three years from 1 January 2023 to 31 December 2025. Save for the automatic renewal, there has been no other change in the principal term of the Sinopharm Procurement Framework Agreement since its execution on 24 April 2020.

Fosun Pharma (a controlling shareholder of the Company) directly held 49% of the interests in Sinopharm Industrial Investment and Sinopharm is a subsidiary of Sinopharm Industrial Investment. Therefore, Sinopharm is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the transactions under the Sinopharm Procurement Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

The maximum transaction amount to be paid by the Group to Sinopharm Group for the procurement of warehousing and logistic services pursuant to the Sinopharm Procurement Framework Agreement for the year ended 31 December 2022 will not exceed RMB19 million.

REPORT OF THE BOARD OF DIRECTORS

The maximum transaction amount to be paid by the Group to Sinopharm Group for the purchase of raw materials pursuant to the Sinopharm Procurement Framework Agreement for the year ended 31 December 2022 will not exceed RMB7 million.

The maximum transaction amount to be paid by the Group to Sinopharm Group for the procurement of warehousing and logistic services pursuant to the Sinopharm Procurement Framework Agreement for the years ended 31 December 2023, 2024 and 2025 will not exceed RMB21.00 million, RMB24.50 million and RMB22.00 million respectively.

The maximum transaction amount to be paid by the Group to Sinopharm Group for the purchase of raw materials pursuant to the Sinopharm Procurement Framework Agreement for the years ended 31 December 2023, 2024 and 2025 will not exceed RMB9.50 million, RMB16.50 million and RMB16.50 million, respectively.

SINOPHARM DISTRIBUTION FRAMEWORK AGREEMENT

On 24 April 2020, the Company entered into a Sinopharm Distribution Framework Agreement to distribute the Biopharmaceutical Products of the Group to the Sinopharm Group from time to time. On 12 June 2020, the Shareholders approved the Sinopharm Distribution Framework Agreement dated 24 April 2020 at the 2020 second extraordinary general meeting. The distribution price will be determined between the parties on an arm's length market basis with reference to the sales price of similar products to end customers and regulatory requirements.

As the initial term of the Sinopharm Distribution Framework Agreement expires on 31 December 2022 and the Company and Sinopharm Holdings will continue to enter into the transactions contemplated under the Sinopharm Distribution Framework Agreement after 31 December 2022, on 17 November 2022, with the consent of the parties, the term of the Sinopharm Distribution Framework Agreement was automatically renewed in accordance with its provisions for a period of three years from 1 January 2023 to 31 December 2025. Since the entering into of the Sinopharm Distribution Framework Agreement on 24 April 2020, there has been no other change in its principal terms other than automatic renewal. On 27 December 2022, the Shareholders approved the renewal of the Sinopharm Distribution Framework Agreement entered into between the Company and Sinopharm on 24 April 2020 and the transactions contemplated thereunder at the second extraordinary general meeting of 2022.

Fosun Pharma (a controlling shareholder of the Company) directly held 49% of the interests in Sinopharm Industrial Investment and Sinopharm is a subsidiary of Sinopharm Industrial Investment. Therefore, Sinopharm is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly, the transactions under the Sinopharm Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

For the year ended 31 December 2022, the maximum transaction amount to be received by the Group from the Sinopharm Group for the distribution of biopharmaceutical products under the Sinopharm Distribution Framework Agreement will not exceed RMB1,995 million. For the years ended 31 December 2023, 2024 and 2025, the maximum annual transaction amount that the Group will receive from Sinopharm Holding Group for the sale of its own products under the Sinopharm Distribution Framework Agreement will not exceed RMB2,833 million, RMB4,491 million and RMB4,691 million, respectively.

REPORT OF THE BOARD OF DIRECTORS

COLLABORATION ARRANGEMENTS UNDER THE HLX01 AGREEMENT AND THE HLX03 AGREEMENT

The Company has entered into the HLX01 Agreement (as amended) with Fosun Pharma Industrial Development (a subsidiary of Fosun Pharma) on 18 September 2015 in connection with HLX01 (HANLIKANG). Pursuant to the terms of the HLX01 Agreement, the Company has agreed to (i) be responsible for the R&D, regulatory submission, clinical trials as well as the manufacturing and supply of HANLIKANG in the PRC; and (ii) grant an exclusive right to Fosun Pharma Industrial Development to promote and commercialise HANLIKANG in the PRC. The Company and Fosun Pharma Industrial Development have also agreed to share the net profit (as defined in the HLX01 Agreement) derived from the sales of HANLIKANG in the PRC. The HLX01 Agreement became effective on the date of signing, and will continue until terminated in accordance with its terms. Frost & Sullivan has confirmed that it is a market practice. The HLX01 Agreement may be terminated if (i) any party materially breaches the terms of the HLX01 Agreement and such breach cannot be cured within 90 days by the breaching party upon receiving notice from the non-breaching party, or (ii) any party is under liquidation, whether voluntary or otherwise, or enters into any agreements with its creditors which may be detrimental to the performance of the obligations under the HLX01 Agreement. In addition, if there is a change of control of Fosun Pharma Industrial Development, Fosun Pharma Industrial Development and the Company should negotiate in good faith for continuing to carry out the cooperation arrangement under the HLX01 Agreement, failing which, the Company may terminate the HLX01 Agreement. Accordingly, the term of the HLX01 Agreement will continue until it is terminated in accordance with its terms.

The Company entered into an agreement with Jiangsu Wanbang (a wholly-owned subsidiary of Fosun Pharma) in relation to HLX03 (HANDAYUAN) on 18 September 2017 to commercialise HANDAYUAN. The HLX03 Agreement contains the similar terms as those of the HLX01 Agreement.

The (i) supply of products; and (ii) the sharing of the net profits derived from the sales of the relevant products by the Group to Fosun Pharma and/or its associate are regarded as continuing connected transactions of the Company. For such transactions, the Company has applied to, and the Stock Exchange has granted to the Company, a waiver from strict compliance with Rules 14A.52 and 14A.53 of the Listing Rules, with a waiver period ending on 31 December 2024.

During the Reporting Period, the actually received amount of the Group for the supply of products and sharing of net profit from sales of related products were RMB594.6 million.

LICENSE AGREEMENT

On 17 November 2022, the Company entered into the License Agreement with Fosun Pharmaceutical Industrial Development, pursuant to which the Company agreed to grant to Fosun Pharmaceutical Industrial Development an exclusive license, based on the Company's intellectual property rights, to commercialise HANSIZHUANG (serplulimab injection) (the "Licensed Product") in the United States (including its territories and possessions) (the "Territory") for the treatment indication of Extensive Stage Small-Cell Lung Cancer (ESSCLC) and any other indication (other than ES-SCLC) as mutually agreed between the Company and Fosun Pharmaceutical Industrial Development in human. Pursuant to the License Agreement, Fosun Pharma Industrial Development is required to make the upfront payment, one-off regulatory milestone payment, sales milestone payments, royalty payments and transfer price payments to the Company. The term of the License Agreement shall commence on the Effective Date and will be valid until Fosun Pharmaceutical Industrial Development concludes, in its sole discretion, that the Licensed Product is no longer commercially viable in the Territory with a one hundred-eighty (180) days prior written notice, or is terminated earlier by the parties under the agreed circumstances as set out in the License Agreement. On 27 December 2022, the Shareholders at the second extraordinary general meeting of 2022 approved the License Agreement entered into between the Company and Fosun Pharma Industrial Development on 17 November 2022 (including the transactions contemplated thereunder).

REPORT OF THE BOARD OF DIRECTORS

Fosun Pharmaceutical Industrial is a wholly-owned subsidiary of Fosun Pharma (a controlling shareholder of the Company), therefore Fosun Pharmaceutical Industrial Development is a connected person of the Company by virtue of being an associate of the Company's controlling shareholder. Accordingly: (i) the entering into the License Agreement and the proposed payments of the Upfront Payment and the Regulatory Milestone Payments would constitute one-off connected transactions of the Company under Chapter 14A of the Listing Rules; and (ii) the payment of the Sales Milestone Payments, the Royalty Payments and the Transfer Price Payments would constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For item(ii) stated above, the Company has applied to, and the Stock Exchange has granted to the Company, a waiver from strict compliance with Rules 14A.52 and 14A.53(1) of the Listing Rules. For major principles of the License Agreement and the details and conditions of Rule 14A.53(1) Waiver and Rule 14A.52 Waiver, please refer to the supplemental circular of the Company dated 13 December 2022.

During the Reporting Period, the actual amount of the transaction of the Sales Milestone Payments, the Royalty Payments and the Transfer Price Payments under the License Agreement was nil.

REVIEW BY AND CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS OF THE COMPANY

The independent non-executive Directors have reviewed the above continuing connected transactions, and confirmed that such transactions were:

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) conducted on normal commercial terms or better (as defined in the Listing Rules); and
- (iii) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable and in the interests of the Shareholders as a whole.

CONFIRMATION OF THE AUDITORS

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued its unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 163 to 168 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

REPORT OF THE BOARD OF DIRECTORS

RELATED PARTY TRANSACTIONS

During the Reporting Period, the Group entered into certain transactions with parties regarded as “related parties” under the applicable accounting standards. Details of the related party transactions entered into by the Group during the Reporting Period are disclosed in note 37 to the financial statements.

Apart from the continuing connected transactions as disclosed in this annual report, none of the related party transactions constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, which are subject to announcement or independent shareholders’ approval requirements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the Reporting Period.

NON-COMPETITION UNDERTAKING

Fosun Pharma has provided a non-compete undertaking to the Company in connection with the Listing to ensure there remains a clear delineation of their respective businesses in the future.

The Non-competition Undertaking commenced on the listing date and will end on the earlier of (i) the date on which Fosun Pharma or its subsidiaries (other than the Group) cease to be controlling shareholders (as defined under the Listing Rules) of the Company and (ii) the date on which the Shares cease to be listed on the Stock Exchange.

The independent non-executive Directors have performed an annual review and confirmed that they are not aware of any circumstances which indicate that Fosun Pharma is not in compliance with Non-competition Undertaking.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, at no time during the Reporting Period had the Company or any of its subsidiaries entered into any contract of significance with the Controlling Shareholders or any of their subsidiaries, nor had any contract of significance been entered into for the services provided by the Controlling Shareholders or any of their subsidiaries to the Company or any of its subsidiaries.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

On 25 September 2019, the Company issued 64,695,400 H Shares with a nominal value of RMB1.00 each at HK\$49.6 per H Share in connection with the Global Offering and listing of the H Shares on the Hong Kong Stock Exchange, with a net price of approximately HK\$45.57 per share (approximately RMB40.56).

On 22 October 2019, the Company partially exercised the over-allotment option granted in connection with the Global Offering and issued an aggregate of 4,366,400 H Shares with a nominal value of RMB1.00 each at HK\$49.6 per H Share, with a net price of approximately HK\$45.57 per share (approximately RMB40.56).

After deduction of listing expenses, the total net proceeds from the Global Offering (including the net proceeds from the partial exercise of the over-allotment option) was approximately HK\$3,147.1 million (approximately RMB2,800.9 million), the use and allocation ratio of which have been adjusted in accordance with the announcements of the Company dated 26 March 2021⁽¹⁾ and 18 August 2022⁽²⁾ (the "Announcements"). As at the end of the Reporting Period, details of the proceeds that have been used and will continue to be used in accordance with those set out in the Prospectus and subject to the adjustment of the Announcements are set out below:

Intended use of proceeds as set out in the Prospectus and adjusted in the Announcements		Allocation of net proceeds in the proportion as set out in the Prospectus and adjusted in the Announcements ⁽³⁾	Amounts utilized as at 31 December 2021 (RMB million)	Amounts utilized during the Reporting Period (RMB million)	Amounts not yet utilized as at 31 December 2022 (RMB million)
(a)	Fund the ongoing clinical trials, regulatory filing and registration for Core Products	approximately 24.8% (RMB693.7 million)	693.6	0.1	0.0
	– Fund the ongoing clinical trials, regulatory filing and registration for HLX02	approximately 6.0% (RMB168.1 million)	168.0	0.1	0.0
	– Fund the ongoing clinical trials, regulatory filing and registration for HLX04 for the mCRC indication	approximately 5.7% (RMB160.9 million)	160.9	0.0	0.0
	– Develop immuno-oncology combination therapy comprised of HLX04 and HLX10 for the treatment of advanced solid tumours	approximately 13.1% (RMB364.7 million)	364.7	0.0	0.0
(b)	Fund the ongoing clinical trials, regulatory filing and registration for other biosimilar candidates, including HLX12, HLX11 and HLX14	approximately 16.8% (RMB470.8 million)	244.1	226.7 ⁽⁴⁾	0.0
(c)	Fund the ongoing clinical trials, regulatory filing and registration for bio-innovation drugs and the development of immuno-oncology combination therapy ⁽⁵⁾	approximately 48.4% (RMB1,356.3 million)	1,068.0	277.4	10.9
	– HLX07	approximately 3.3% (RMB92.8 million)	92.8	0.0	0.0
	– HLX20	approximately 0.2% (RMB5.6 million)	4.2	1.4	0.0
	– HL X10 and immuno-oncology combination therapies involving HLX10 (including HLX10+HLX07)	approximately 44.9% (RMB1,257.9 million)	971.0	276.0 ⁽⁴⁾	10.9
(d)	Working capital and general corporate purposes	approximately 10.0% (RMB280.1 million)	278.8	1.3	0.0
Total ⁽⁶⁾		100% (RMB2,800.9 million)	2,284.5	505.5	10.9

REPORT OF THE BOARD OF DIRECTORS

Notes:

- (1) On 26 March 2021, the Board considered the research and development progress of HLX10 and immuno-oncology therapies and is of the view that the clinical trials, regulatory filing and registration for HLX10 and immuno-oncology therapies require additional investments. Accordingly, the Board reallocated part or all of the unutilised net proceeds originally allocated to the development of immuno-oncology combination therapy comprised of HLX04 and HLX10 for the treatment of advanced solid tumours, funding the ongoing clinical trials, regulatory filing and registration for other biosimilar candidates, including HLX12, HLX11 and HLX14, and funding the ongoing clinical trials, regulatory filing and registration for bio-innovative drugs (HLX06 and HLX07), to the funding of ongoing clinical trials, regulatory filing and registration for bio-innovation drugs – HLX10 and immuno-oncology combination therapies involving HLX10 (including HLX10+HLX07). The Board approved the change in the use of net proceeds and is of the view that it is in the interest of the Company and its shareholders (the “Shareholders”) as a whole and will not have any material adverse effect on the existing business and operations of the Group.
- (2) On 18 August 2022, in order to improve the efficiency of the use of the net proceeds and maximise the interests of investors, the Company continued to monitor and plan the use of the net proceeds. The Board considered the research and development progress of other biosimilar candidates, including HLX12, HLX11 and HLX14, by comprehensively taking into account the progress of the Company’s products in its pipeline and the timeframe for the use of funds, and considered that reallocating the unutilised net proceeds originally allocated to the ongoing clinical trials, regulatory filing and registration for HLX04 for the mCRC indication, and developing immuno-oncology combination therapy comprised of HLX04 and HLX10 for the treatment of advanced solid tumours into the ongoing clinical trials, regulatory filing and registration for other biosimilar candidates, including HLX12, HLX11 and HLX14, would facilitate the advancement of clinical trials, regulatory filing and registration of relevant biosimilar candidates, which in turn will enhance the overall efficiency of the use of the unutilised net proceeds. The Board approved to change the use of net proceeds and is of the view that it is in the interest of the Company and the Shareholders as a whole and will not have any material adverse effect on the existing business and operations of the Group.

Except for the above, there is no other change in the use of the net proceeds from the Global Offering.

- (3) The net proceeds figures have been translated to Renminbi for the allocation and the utilization calculation, and have been adjusted slightly due to the fluctuation of the foreign-currency exchange rates since the listing and proportionally in accordance with the Prospectus after taking into account the final offer price of the Global Offering and the partial exercise of the over-allotment options. Please see the Announcements for details of the adjustment of the use and allocation of the net proceeds from the Global Offering.
- (4) Given the funding, investment, research and development projects were making progress at different paces, the then-management of the Company entered into the Investment Management Agreement (the “IMA”) with AMTD on 25 September 2019 to engage AMTD to provide investment management services in connection with US\$117.0 million deposited into the investment portfolio account with AMTD. As of the date of this report, the Company has redeemed approximately US\$50.6 million from the investment account, with outstanding principal balance of approximately US\$66.4 million. Please see the announcement of the Company dated 31 March 2023 for details. In order not to affect the progress of the funding, investment, research and development projects of the Company, the management decided in July 2022 that self-owned liquidity of US\$69.7 million (approximately RMB470 million) would be used in the funding, investment, research and development projects of the Company, among which, RMB226.7 million would be used to fund the ongoing clinical trials, regulatory filing and registration for other biosimilar candidates, including HLX12, HLX11 and HLX14; RMB243.3 million would be used to fund the ongoing clinical trials, regulatory filing and registration for bio-innovation drugs – HLX10 and immuno-oncology combination therapies involving HLX10 (including HLX10+HLX07).

As of the date of this report, repayment term for the outstanding principal is still uncertain. The Company will continuously communicate and negotiate with AMTD on the collection of outstanding principal, and will conduct the review procedures and disclose relevant information in a timely manner pursuant to applicable Listing Rules as and when appropriate.

- (5) The use of proceeds to be applied to the research and development of the bio-innovative drugs and the development of immuno-oncology combination therapy depends on the development progress of each of these drugs and therapies. The unutilised amount of RMB10.9 million, which is expected to be used up in the second quarter of 2023, will be used to fund HLX10 and immuno-oncology combination therapies involving HLX10 (including HLX10+HLX07).
- (6) The majority of the net proceeds from the Global Offering are used to fund ongoing clinical trials, regulatory filings and registrations of the Company’s drugs and therapies, the results and timeframe of which are therefore beyond the control of the Company.

The Company has not conducted any fund raising activities involving the issue of equity securities within 12 months immediately prior to the Latest Practicable Date.

PROPOSED A SHARE OFFERING ON THE SHANGHAI STOCK EXCHANGE

On 30 March 2020, the Company has announced the proposal to make an application to the relevant regulatory authorities in the PRC for the allotment and issue of A Shares and an application to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares on the Science and Technology Innovation Board of Shanghai Stock Exchange. On 27 April 2020, a circular containing the details of the Proposed A Share Offering was dispatched to the Shareholders. On 12 June 2020, the resolutions in relation to the Proposed A Share Offering were duly passed. On 23 April 2021, a circular containing the details of extension of the Proposed A Share Offering and Listing was dispatched to the Shareholders. On 25 May 2021, the resolutions in relation to extension of the Proposed A Share Offering and Listing were duly passed. On 13 May 2022, the resolutions in relation to extension of the Proposed A Share Offering and Listing were duly passed.

The Company has not conducted any fund-raising activities involving the issue of equity securities within 12 months immediately prior to the Latest Practicable Date.

SUBSEQUENT EVENTS

On 30 March 2023, the Company received a letter from the legal representatives of AMTD, attaching a Writ of Summons issued in relation to a litigation commenced by AMTD against the Company in the Court of First Instance of the High Court of Hong Kong. AMTD alleges that the Company has breached the IMA by withdrawing the USD30,640,000 mentioned in note 20 to the financial statements without the written consent of AMTD, and not paying management fees for services provided by AMTD. AMTD seeks monetary and declaratory relief, as well as specific performance.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes the importance of compliance with regulatory requirements. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. During the Reporting Period, the Group has complied, to the best of our knowledge, with all relevant rules and regulations that have a significant impact on the Company.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2022, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

RELATIONSHIP WITH STAKEHOLDERS

The Company recognizes that its employees, customers and business partners are keys to its sustainability journey. The Company has been striving to achieve corporate sustainability through engaging its employees, providing quality services for its customers, collaborating with business partners and supporting communities.

The Company places significant emphasis on human resources. The Company provides a fair workplace, promoting non-discrimination and diversity to its staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. The Company provides regular trainings for staff to keep them abreast of the latest developments in the market and industry, by means of both internal trainings and trainings provided by experts from external organizations.

REPORT OF THE BOARD OF DIRECTORS

To enhance customer satisfaction and promote a customer-oriented culture within the Group, the Company takes “Customer First” as one of its core values. It values the feedback from customers and collects feedbacks through daily communication, regular meeting, etc. It has also established the mechanism about customer service, support and complaints. When dealing with a customer complaint, the Company treats it as an opportunity to improve its relationship with the customer, and solves it in a timely manner and in accordance with international standards.

The Company believes that its suppliers are equally important in driving quality delivery of its products. It proactively collaborates with its business partners (including suppliers and contractors) to deliver high-quality and sustainable products and services.

AUDITORS

The financial statements of the Group have been audited by Ernst & Young.

A resolution to re-appoint Ernst & Young as the auditors of the Company and to authorize the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

Wenjie Zhang

Chairman

Hong Kong, 31 March 2023

REPORT OF THE BOARD OF SUPERVISORS

During the reporting period, in accordance with the Company Law, the Listing Rules and other relevant laws, regulations and the Articles of Association, the Rules of Procedures of the Board of Supervisors and relevant regulations, all members of the Board of Supervisors performed their supervisory functions, carefully and objectively considered the issues related to the finance and operation of the Company, and earnestly supervised the legality and compliance of Directors' and senior management's performance. They have fully developed the supervisory role, and played an active role in ensuring the implementation of resolutions passed on general meetings of the Company, and safeguarding the legitimate rights and interests of the Company and Shareholders as a whole.

THE DAILY OPERATION OF THE BOARD OF SUPERVISORS

During the reporting period, the second session of the Board of Supervisors of the Company held a total of 3 meetings, and the third session of the Board of Supervisors of the Company held a total of 3 meetings, which reviewed the financial situation and other annual events for the year 2021 of the Group, and the financial position for the first quarter, the first half year and the third quarter of 2022, the candidates for Shareholder representative supervisors of the third session of the Board of Supervisors and the election of the chairman of the Board of Supervisors and other relevant matters.

REVIEW OPINIONS OF THE BOARD OF SUPERVISORS ON THE RELATED MATTERS OF THE COMPANY IN 2022

1. Compliance with Laws in Operations

The Board of Supervisors considers that, the Company can operate in strict accordance with the requirements of the Company Law, the Articles of Association, and other relevant requirements. The Company's decision-making procedures are legal and effective, and an internal control system is in place. No violations of laws, regulations, the Articles of Association or any detriment to the interests of the Company were found when the Directors and senior management of the Company performing their functions.

2. Financial Position

The Board of Supervisors considers that the preparation and review procedures of the Company's financial reports are in compliance with the Company Law and the Articles of Association and other relevant provisions, and the financial report can authentically reflect the Group's operating conditions and financial position, with no significant omissions or false statements.

3. Internal Control

The Board of Supervisors considers that, the Company has established an internal control system, which is in compliance with relevant requirements such as the Company Law and the Articles of Association. Regarding the investment management transaction disclosed by the Company on 31 March 2023, the Board of Supervisors will continue to monitor the relevant progress and the overall internal control situation of the Company, and safeguard the rights and interests of the Company and all the Shareholders.

4. Connected Transactions

The Board of Supervisors considers that, during the reporting period, the Company's connected transactions were carried out in accordance with the principles of openness, fairness and equity, and the transaction procedures were legal and compliant, without any detriment to the rights and interests of the Company and Shareholders.

On Behalf of the Board of Supervisors

Rongli Feng

Chairman

Hong Kong, 31 March 2023

CORPORATE GOVERNANCE REPORT

The Board hereby presents to the Shareholders the corporate governance report for the year ended 31 December 2022.

CORPORATE GOVERNANCE CULTURE

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that Shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to Shareholders;
- that the interests of those who deal with the Company are safeguarded;
- that overall business risk is understood and managed appropriately;
- the delivery of high-quality products and services to the satisfaction of customers; and
- that high standards of ethics are maintained.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential for the Group to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code.

The Company has also in place a corporate governance framework and has established a set of policies and procedures based on the CG Code. Such policies and procedures provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company.

In the opinion of the Directors, the Company has complied with all principles and code provisions of the CG Code during the Reporting Period, except for code provision C.2.1 which requires the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The details of deviation are set out in section headed "Chairman, chief executive officer and president" below in this corporate governance report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding the securities transactions of Directors, supervisors and relevant employees who are likely to be in possession of inside information of the Company.

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

No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsible for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

BOARD COMPOSITION

The Board of the Company currently comprises the following Directors:

EXECUTIVE DIRECTOR

Mr. Wenjie Zhang (*Chairman and chief executive officer*)

NON-EXECUTIVE DIRECTORS

Mr. Qiyu Chen
Mr. Yifang Wu
Ms. Xiaohui Guan
Mr. Deyong Wen
Mr. Zihou Yan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tak Young So
Dr. Lik Yuen Chan
Dr. Guoping Zhao
Dr. Ruilin Song

Dr. Aimin Hui resigned as a non-executive director of the Board on 28 July 2022. Mr. Deyong Wen was appointed as a non-executive director of the Board on 28 July 2022.

The biographical information of the Directors is set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 86 to 93 of this annual report.

None of the members of the Board is related to one another, including financial, business, family, or other material or relevant relationship(s).

CORPORATE GOVERNANCE REPORT

CHAIRMAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT

During the Reporting Period, Mr. Wenjie Zhang has been the chairman of the Board and chief executive officer of the Company. Mr. Jun Zhu has been the president of the Company. The chairman of the Board leads and is responsible for the effective functioning of the Board of the Company. The terms of reference of the chief executive officer and the president are set out in the Articles of Association. The chief executive officer is responsible for organizing the formulation and implementation of the Company's strategic plan, annual investment plan, and implementing board resolutions, while the president is responsible for presiding over the Company's production and operation management, organizing and implementing the Company's annual business plan and investment plan, drawing up the setting plan of the Company's internal management organization, basic management systems and regulations.

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

During the Reporting Period, Mr. Wenjie Zhang served both as the chairman of the Board and chief executive officer, resulting the deviation of the code provision by the Company. Mr. Wenjie Zhang joined the Company in March 2019 and has successively served in various key positions in the Company, including the chief commercial operation officer and chief strategy officer of the Company, his familiarity with the business operation of the Company and his roles as the chairman of the Board and the chief executive officer of the Company can facilitate the formulation and implementation of business strategies of the Company. The Board considered that the current structure will not impair the balance of power and authority between the Board and the management of the Company. The Board will make decisions on important matters of the Company within the authority granted by the articles of association of the Company and its Shareholders at the general meetings. In addition, the Board, which currently comprises one executive Director, five non-executive Directors and four independent non-executive Directors, is appropriately structured with a balance of power to provide sufficient checks to protect the interests of the Company and the Shareholders as a whole.

Saved as disclosed above, the Company has complied with all principles and code provisions of the CG Code during the Reporting Period.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

MECHANISMS TO ENSURE INDEPENDENT VIEWS AND INPUT ARE AVAILABLE TO THE BOARD

The Board has established mechanisms to ensure independent views and input are available to the Board, including all the Directors have full and timely access to the information of the Company (including but not limited to financial reports, audit results and other relevant data) as well as the advice and services of the Company Secretary and other senior managements; Board members are have access to necessary professional advice in their decision-making process. The Board may, in appropriate circumstances, seek independent professional advice at the Company's expenses to assist them; Board members are also encouraged to seek inputs from other members, employees and other stakeholders in appropriate circumstances to ensure that different perspectives are taken into account in the decision-making process, etc..

The Board has reviewed and considered that the above mechanisms are effective in ensuring that independent views and input are provided to the Board during the year ended 31 December 2022.

APPOINTMENT, REMOVAL AND RE-ELECTION OF DIRECTORS

Directors shall be elected at the general meeting and each Director (including non-executive Director)'s term of office shall be three years. The term of office of a Director may be renewed upon re-election when it expires. The chairman of the Board shall be elected and removed by a majority of all Directors, and term of office thereof shall be three years, and may be renewed upon re-election when it expires.

The Articles of Association provides that subject to the relevant regulations and regulatory rules of the place where the shares of the Company are listed, if the Board appoints a new Director to fill up the temporary vacancy of the Board or add the number of Directors, the term of office of the Director so appointed shall end only upon the next annual general meeting of the Company, and the said Director shall be qualified for re-election and renewal.

Under the Articles of Association, in case a Director has failed to be present in person twice consecutively without any due causes, nor authorized another Director to be present at the board meeting on his behalf, he shall be considered unable to fulfill his duties as a Director, and the Board may suggest the general meeting making replacement.

In accordance with the Articles 102 of the Articles of Association, all existing Directors will continue in office until their term of office expiring on 27 July 2025.

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 management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

The Directors shall disclose to the Company details of other offices held by them.

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

CORPORATE GOVERNANCE REPORT

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 on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

During the Reporting Period, the Company organized training sessions conducted by the lawyer for its Directors. Such training sessions cover a wide range of relevant topics including Directors' duties and responsibilities/corporate governance etc. In addition, relevant reading materials including Directors' manual/legal and regulatory update/seminar handouts have been provided to the Directors for their reference and studying.

The Company understands that Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally organized briefings for Directors will 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.

The records of continuous professional development relating to Director's duties and regulatory and business development that have been received by the Directors during the Reporting Period are summarized as follows:

Name of Directors	Types of Training ^{Note}
Executive Director	
Mr. Wenjie Zhang	A&B
Non-executive Directors	
Mr. Qiyu Chen	A&B
Mr. Yifang Wu	A&B
Ms. Xiaohui Guan	A&B
Mr. Deyong Wen ⁽¹⁾	A&B
Mr. Zihou Yan	A&B
Dr. Aimin Hui ⁽²⁾	A&B
Independent Non-executive Directors	
Mr. Tak Young So	A&B
Dr. Lik Yuen Chan	A&B
Dr. Guoping Zhao	A&B
Dr. Ruilin Song	A&B

Note:

(1) Mr. Deyong Wen was appointed as a non-executive Director on 28 July 2022.

(2) Dr. Aimin Hui resigned as a non-executive Director on 28 July 2022.

Types of Training

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

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

BOARD COMMITTEE

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

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

AUDIT COMMITTEE

The Audit Committee consists of three members, namely Ms. Xiaohui Guan who is a non-executive Director of the Company, and Mr. Tak Young So and Dr. Lik Yuen Chan who are independent non-executive Directors of the Company. Mr. Tak Young So is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

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

The Audit Committee also held a total of 2 meetings with the external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, namely Mr. Yifang Wu who is a non-executive Director of the Company, and Dr. Lik Yuen Chan and Dr. Ruilin Song who are independent non-executive Directors of the Company. Dr. Ruilin Song is the chairman of the Remuneration Committee.

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

During the Reporting Period, the Remuneration Committee held a total of 4 meetings to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the executive Directors and senior management, reviewing/approving matters relating to the share award schemes and other related matters.

Details of the remuneration of the Directors and senior management are set out in note 9 to the financial statements for the year ended 31 December 2022.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Nomination Committee consists of three members, namely Mr. Wenjie Zhang who is an executive Director of the Company, and Dr. Guoping Zhao and Dr. Ruilin Song who are independent non-executive Directors of the Company. Mr. Wenjie Zhang is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are no less exacting than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, reviewing the board diversity policy and the policies related to the nomination of Directors and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's board diversity policy.

In evaluating and nominating suitable candidates for directorships, the Nomination Committee would consider the following criteria of the candidate as per the policies related to the nomination of Directors and the candidate's relevant criteria are necessary to implement the corporate strategy and achieve Board diversity, where appropriate before making recommendation to the Board:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and the experience related to the Company's business and strategy, and diversity factors as referred in the board diversity policy;
- any measurable objectives adopted for achieving diversity on the Board;
- the Board shall include independent non-executive Directors in accordance with the Listing Rules and whether the candidate would be considered independent by reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can make to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- the willingness and ability to devote adequate time to discharge duties as a member of the Board and Board committee(s); and
- other factors that are applicable to the Company's business and succession plan, and relevant factors that can be revised by the Nomination Committee and/or the Board when necessary.

During the Reporting Period, the Nomination Committee held a total of 5 meetings to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider and recommend to the Board on the appointment of Directors and Supervisors.

STRATEGY COMMITTEE

The Strategy Committee consists of seven members, namely Mr. Wenjie Zhang who is an executive Director of the Company, Mr. Qiyu Chen, Mr. Yifang Wu, Mr. Deyong Wen and Mr. Zihou Yan who are non-executive Directors of the Company, and Mr. Tak Young So and Dr. Ruilin Song who are independent non-executive Directors of the Company. Mr. Wenjie Zhang is the chairman of the Strategy Committee.

The main responsibility of the Strategy Committee is to conduct research on the Company's long-term development strategies and significant investment decisions and make recommendations to the Board of the Company, including:

- studying and making recommendations on the Company's long-term strategic development plan;
- tackling other matters related to strategic investment as required by the laws, regulations, regulatory documents, Listing Rules, Articles of Association and other internal management systems of the Company or authorized by the Board;
- studying and making recommendations on other significant events that affect the Company's development;
- inspecting the implementation of the above matters approved by the Board or the general meeting; and
- studying and making recommendations on significant investments, financing, significant capital operations, and asset operating projects subject to the approval by the Board or the general meeting as required by the Articles of Association or other internal management systems of the Company.

During the Reporting Period, the Strategy Committee held 2 meetings in total.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

The Environmental, Social and Governance Committee consists of five members, namely Mr. Wenjie Zhang who is an executive Director of the Company, Mr. Zihou Yan who is a non-executive Director of the Company, and Mr. Tak Young So, Dr. Lik Yuen Chan and Dr. Ruilin Song who are independent non-executive Directors of the Company. Dr. Lik Yuen Chan is the chairman of the Environmental, Social and Governance Committee.

The main responsibility of the Environmental, Social and Governance Committee is to develop the vision, objectives, strategies and structure for the Company's environmental, social and governance efforts, and to review matters related to the implementation of the vision, strategies and structure in environmental, social and governance terms.

During the Reporting Period, the Environmental, Social and Governance Committee held 2 meetings in total.

BOARD DIVERSITY POLICY

The Company has adopted the board diversity policy, which sets out the approaches to achieve the diversity of the Board. The Company recognizes that the Board shall possess the skills, experience and principles of diverse opinions and perspectives that are necessary and appropriate to the Company's business. The Board will review the implementation and effectiveness of the board diversity policy at least on an annual basis.

CORPORATE GOVERNANCE REPORT

Pursuant to the board diversity policy, the Nomination Committee has reviewed the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile during the Reporting Period. In order to achieve diversity in opinions and perspectives of the members of the Board, the Nomination Committee will consider diverse factors in appointment and re-appointment of members of the Board, including gender, age, cultural and educational background, race, place of residence, expertise, skills, knowledge, service period, regulatory requirements and legal rights. All of the above factors are considered to be relevant to the Company's business on grounds that:

- As the Company facing diverse operating environment, in order to fulfill the best interests of Shareholders, due consideration shall be given to the interests of employees, customers, suppliers and other business counterparties, governments and other institutions that have an influence on the Company and public shareholders. The composition of the Board that is based on the gender, age, cultural and educational background and race of the members can help strike a right balance among the interests of all parties.
- Expertise, skills, knowledge, and service period are important factors that determine whether the Board can make a wise decision.

All members of the Board are appointed based on the strengths of the candidates, taking into account their skills, knowledge and experience as a whole as required by the Board and the above diverse opinions and perspectives of the Board.

The Board had targeted to achieve and had achieved at least 10% (1) of female Directors, and considers that the above current board diversity is satisfactory.

In considering the Board's succession and to ensure diversity at the Board level, the Nomination Committee will engage independent professional search firm(s) to help identify suitable candidates for consideration as non-executive Directors as and when appropriate. The Board will continue to take opportunities to increase the proportion of female Directors over time as and when suitable candidates are identified.

GENDER DIVERSITY

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

	Female (ratio/number)	Male (ratio/number)
Board	10.0% (1)	90.0% (9)
Senior Management	40.0% (4)	60.0% (6)
Other employees	52.7% (1,788)	47.3% (1,608)
Overall workforce	52.6% (1,792)	47.4% (1,614)

The Board had targeted to achieve and had achieved at least 10% (1) of female Directors, 40% (4) of female senior management and 52.6% (1,792) of female employees of the Group and considers that the above current gender diversity is satisfactory.

Details on the gender ratio of the Group together with relevant data can be found in the Environmental, Social and Governance Report.

CORPORATE GOVERNANCE FUNCTIONS

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

The Board 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 disclosures in this corporate governance report.

ATTENDANCE RECORDS OF DIRECTORS

The Company held 11 Board meetings, 4 Audit Committee meetings, 4 Remuneration Committee meetings, 5 Nomination Committee meeting, 2 Strategy Committee meetings, 2 Environmental, Social and Governance Committee meetings and 5 general meetings during the Reporting Period.

The attendance record of the Board meetings and Board committee meetings and the general meetings of the Company during the Reporting Period is set out in the table below:

Name of Director	Attendance/number of Meetings						General Meeting ⁽¹⁾
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Strategy Committee	Environmental, Social and Governance Committee	
Mr. Wenjie Zhang	11/11			5/5	2/2	2/2	5/5
Mr. Qiyu Chen	11/11				2/2		5/5
Mr. Yifang Wu	11/11		4/4		2/2		5/5
Ms. Xiaohui Guan	11/11	4/4					5/5
Mr. Deyong Wen ⁽²⁾	5/5				1/1		1/1
Mr. Zihou Yan	11/11				2/2	2/2	5/5
Mr. Tak Young So	11/11	4/4			2/2	2/2	5/5
Dr. Lik Yuen Chan	11/11	4/4	4/4			2/2	5/5
Dr. Guoping Zhao	11/11			5/5			5/5
Dr. Ruilin Song	11/11		4/4	5/5	2/2	2/2	5/5
Dr. Aimin Hui ⁽³⁾	6/6				1/1		4/4

Note:

- (1) During the Reporting Period, the Company held a total of 5 general meetings, including 1 annual general meeting, 2 extraordinary general meetings, and 1 domestic shareholders' class meeting and 1 H shareholders' class meeting.
- (2) Mr. Deyong Wen was appointed as a non-executive Director and a member of the Strategy Committee on 28 July 2022.
- (3) Dr. Aimin Hui resigned as a non-executive Director and a member of the Strategy Committee on 28 July 2022.

For the year ended 31 December 2022, the chairman held one meeting with independent non-executive Directors without the presence of other Directors.

The independent non-executive Directors and non-executive Directors have attended general meetings of the Company to gain and develop a balanced understanding of the view of the Shareholders.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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's risk management and internal control systems have been developed with the following principles, features and processes:

- the Audit Committee of the Company assists the Board in leading the management and oversees the formulation, implementation and monitoring of the risk management and internal control systems.
- the Company has established an internal audit department as the full-time internal control agency. The internal audit department implements supervision and management in the course of business operation of the Company. The internal audit department uses the internal auditing technology of the Company to conduct post-supervision and audit of the Company's daily business to ensure that the Company's business operations continue to meet the Company's system requirements and external regulatory requirements.
- the Company has established risk management and internal control systems and updates them from time to time, enabling the Company to maintain the highest standard of corporate governance and identify and reduce any potential risks.
- the Company has developed effective risk management procedures and internal control systems based on the corporate governance manual, which are implemented through the Company's daily business and office functions, such as research and development, production, sales, procurement, engineering, human resources, information technology, financial reporting and management.
- the Company has formulated a number of policies to ensure that the Company complies with the Listing Rules, including but not limited to corporate governance generally, connected transactions, notifiable transactions, inside information and Directors' securities transactions.

The core departments conducted internal control assessment regularly to identify risks that could potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on identified major findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems based on information we have for now and will do continues efforts to ensure the effectiveness of the risk management and internal control systems.

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

CORPORATE GOVERNANCE REPORT

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2022, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

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

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 2022.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 94 to 99.

AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2022 amounted to RMB2,500,000 and RMB1,463,258 respectively.

An analysis of the remuneration paid to the external auditor of the Company, Ernst & Young, for the year ended 31 December 2022 is set out below:

Service Category	Fees Paid/Payable (RMB)
Audit Services	
– Annual audit service	2,500,000
Non-audit Services	
– Interim review service	850,000
– Others	613,258
	3,963,258

JOINT COMPANY SECRETARIES

During the Reporting Period, Ms. Yan Wang, the secretary to the Board of the Company, has been serving as the joint company secretary. During the Reporting Period, Ms. Ching Ching Leung of Tricor Services Limited, an external service provider, has been acting as a joint company secretary of the Company from 1 January 2022 to 18 August 2022. The primary contact person of Ms. Ching Ching Leung was Ms. Yan Wang. After the resignation of Ms. Ching Ching Leung, Ms. Mei Ha Wendy Kam was appointed as the joint company secretary of the Company. The primary contact person of Ms. Mei Ha Wendy Kam is Ms. Yan Wang. For the year ended 31 December 2022, Ms. Wang, Ms. Leung and Ms. Kam undertook no less than 15 hours of the relevant professional training in compliance with Rule 3.29 of the Listing Rules.

All Directors have access to the advice and services provided by the joint company secretaries on corporate governance and practices and matters of the Board.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

CONVENING AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 62 of the Articles of Association, if Shareholders request the convening of an extraordinary general meeting or class meeting of shareholders, the following procedures shall be carried out:

- (i) The Shareholders holding, individually or in aggregate, more than 10% of the voting shares of the Company may sign one or more copies of written requests in the same form requesting the Board to convene an extraordinary general meeting or a class meeting of shareholders, and stating the matters to be considered at the meeting. The Board shall within ten days of receipt of the said written request give the written feedback opinion on approval or disapproval for convening an extraordinary general meeting or a class meeting of shareholders. If the Board approves convening an extraordinary general meeting or a class meeting of shareholders, it will within five days of adopting the resolution of the Board issue the notice of convening the meeting, and any changes in the original request in the notice shall be subject to the consent of relevant Shareholders. The aforesaid number of shares held shall be calculated on the date when the Shareholders make the written request.
- (ii) If the Board fails to issue the notice of convening a meeting within thirty days of receipt of the written request, the requesting Shareholders may themselves convene such a meeting in a manner as similar as possible to the manner in which general meeting are convened by the Board within four months of receipt of the request by the Board.

Where the Shareholders convene and preside over a meeting by themselves as the Board fails to convene the meeting pursuant to the aforesaid request, the reasonable expenses incurred therefrom shall be borne by the Company and deducted from the amounts due from the Company to the defaulting Directors.

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Pursuant to Article 68 of the Articles of Association, Shareholders individually or in aggregate holding more than 3% of shares of the Company shall have the right to put forward proposals. The contents of the proposal shall fall within the terms of reference of the general meeting and have specified subjects and specific resolutions, in further compliance with the laws and regulations and the Company's Articles of Association.

In addition, Shareholders individually or in aggregate holding more than 3% of the Shares of the Company may propose and submit a temporary proposal to the convener in writing form ten days prior to date of the general meeting; the convener shall issue a supplementary notice of general meeting within two days after receipt of the said temporary proposal, to notify other Shareholders and to submit the said temporary proposal to the general meeting for consideration. The contents of the temporary proposal shall fall within the terms of reference of the general meeting and have specified subjects and specific resolutions.

The general meeting shall not vote and adopt a resolution on any proposal that is not listed in the notice of the general meeting or that is inconsistent with the Article 68.

PUTTING FORWARD ENQUIRIES TO THE BOARD

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

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the Company by means of facsimile, email or post. The details of contact are as follows:

Shanghai Henlius Biotech, Inc. (For the attention of the Board of Directors)

Address: 9F, Innov Tower (Capitaland Building), 1801 Hongmei Road, Xuhui District, Shanghai, PRC, 200233
Fax: +86 021-34611802
Email: ir@henlius.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, apart from the registered office of the Company, and provide their full names, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor's understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board and the chairman of all Board committees (or their delegates) will attend the annual general meetings in person to meet Shareholders and answer their enquiries.

During the Reporting Period, the Company has not amended Articles of Association of the Company. The latest version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

To promote effective communication, the Company maintains a website at <http://www.henlius.com>, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' COMMUNICATION POLICY

The Company has in place a Shareholders' Communication Policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy aims to ensure that the Shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

Under the policy, information shall be communicated to Shareholders and the investment community mainly through the Company's financial reports, annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications and other corporate publications on the Company's website. Effective and timely dissemination of information to Shareholders and the investment community shall be ensured at all times, and the Board shall maintain an on-going dialogue with Shareholders and the investment community.

The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy during the Reporting Period and the results were satisfactory.

PROFIT DISTRIBUTION ADMINISTRATION POLICY

The Company has adopted a profit distribution administration policy on payment of dividends. Such details have been disclosed in the section headed "Profit Distribution Plan" on page 47 of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Mr. Wenjie Zhang, aged 56, has been the executive director of the Company since November 2020, and has been the Chairman of the Board since November 2021. Mr. Zhang has been the chief executive officer of the Company since September 2020, responsible for the operation management of the Group. He focuses on building the innovative commercial operation mode of the Group and creating an international strategic layout, and successfully promotes the commercialization of HANLIKANG · HANQUYOU, the core products of the Group.

Mr. Zhang has been the senior vice president, chief strategy officer and the chief commercial operation officer of the Company from March 2019 to February 2020, the president of the Company from February 2020 to November 2021. Mr. Zhang has been the president of Henlius Biopharmaceuticals since February 2020, the president of Henlius Pharmaceutical from February 2020 to March 2021, and the chief executive officer of Henlius Pharmaceutical from September 2020 to March 2021. Mr. Zhang has been the director and chief executive officer of Henlius Biopharmaceuticals, the chairman of the board of directors of Henlius Pharmaceutical, the director of Taiwan Henlius, the director, chief executive officer and chief financial officer of Hengenix and the managing director of Henlius Europe GmbH since September 2020, and the general manager of Taiwan Henlius since December 2020. He has been the director of Henlius Industrial since February 2021, the director of Jollin Lab since December 2021, the director of Aton Ruilin since March 2022 and the chairman of the board of Aton Ruilin from March 2022 to July 2022.

Mr. Zhang has nearly 30 years of commercial operation and management experience in the pharmaceutical industry. Prior to joining the Group, Mr. Zhang has previously served in various roles including the general manager at Amgen China, USA, the vice president of oncology business unit 2 of Shanghai Roche Pharmaceuticals, China, and the head of specialty therapeutics & oncology unit-Bayer Schering Pharma, Germany. Mr. Zhang obtained a bachelor's degree in microbiology from Shandong University (山東大學), China, in July 1990 and a master's degree of business administration from Yale University, USA, in May 1998.

Mr. Qiyu Chen (陳啟宇), aged 50, has been a non-executive director of the Company since January 2013 and served as the chairman of the Board from December 2018 to November 2021. Mr. Chen joined Fosun Pharma Group in April 1994, and served as a director of Fosun Pharma since May 2005, and served as the chairman of the board of Fosun Pharma from June 2010 to October 2020. Mr. Chen currently serves as the chairman of the board of Fosun High Tech, the executive director and the co-chief executive officer of Fosun International, the non-executive director of Gland Pharma, the non-executive director and vice chairman of the board of Sinopharm, the director of Beijing Sanyuan Foods Co., Ltd.* (北京三元食品股份有限公司) (Shanghai Stock Exchange stock code: 600429), the co-chairman of the board of Unicorn II Holdings Limited. Mr. Chen previously served as a director of Di'an Diagnostics Group Co., Ltd. (迪安診斷技術集團股份有限公司) (Shenzhen Stock Exchange stock code: 300244), a non-executive director of Babytree Group (Stock Exchange stock code: 01761), and a co-chairman of the board of New Frontier Health Corporation (delisted from the New York Stock Exchange in January 2022 and merged by Unicorn II Holdings Limited by way of merger by absorption). In addition, Mr. Chen previously held directorships in various companies invested by Fosun International and its affiliated companies.

Mr. Chen has been the chairman of China Medical Pharmaceutical Material Association (中國醫藥物資協會), a vice president of China Pharmaceutical Innovation and Research Development Association (中國醫藥創新促進會), the honorary chairman and chief supervisor of Shanghai Biopharmaceuticals Industry Association (上海市生物醫藥行業協會), and a member of the 13th Shanghai Standing Committee of the Chinese People's Political Consultative Conference. Mr. Chen was awarded "Asia's Best CEO" by Corporate Governance Asia, etc.. Mr. Chen obtained a bachelor's degree in genetics from Fudan University (復旦大學) in the PRC in July 1993 and a master's degree of business administration from China Europe International Business School (中歐國際工商學院) in the PRC in September 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yifang Wu (吳以芳), aged 53, has been a non-executive director of the Company since June 2015. Mr. Wu joined Fosun Pharma Group in April 2004, and successively served as the senior vice president, the senior vice president and chief operating officer, the president, the chief executive officer of Fosun Pharma. Mr. Wu has been an executive director of Fosun Pharma since August 2016 and the chairman of the board of Fosun Pharma since October 2020. Mr. Wu currently serves as a non-executive director of Sisram Medical Ltd.* (復銳醫療科技有限公司) (Stock Exchange stock code: 01696) and a non-executive director of Gland Pharma, and the chairman of the board of supervisors of Sinopharm from September 2020 to June 2021.

Prior to joining Fosun Pharma Group, Mr. Wu has been a technician, director, production officer, finance director, assistant to director of Xuzhou Biochemical Pharmaceutical Factory* (徐州生物化學製藥廠), a deputy factory director of Xuzhou (Wanbang) Biopharmaceuticals Manufactures Plant* (徐州(萬邦)生物化學製藥廠), the deputy general manager of Xuzhou Wanbang Biochemical Pharmaceutical Co., Ltd.* (徐州萬邦生化製藥有限公司) and the deputy general manager and president of Jiangsu Wanbang Biopharmaceutical Co., Ltd.* (江蘇萬邦生化醫藥股份有限公司) (where Xuzhou Biochemical Pharmaceutical Factory* (徐州生物化學製藥廠), Xuzhou (Wanbang) Biopharmaceuticals Manufactures Plant* (徐州(萬邦)生物化學製藥廠), Xuzhou Wanbang Biochemical Pharmaceutical Co., Ltd.* (徐州萬邦生化製藥有限公司) and Jiangsu Wanbang Biopharmaceutical Co., Ltd.* (江蘇萬邦生化醫藥股份有限公司) were predecessors of Jiangsu Wanbang), and the chairman of the board of Jiangsu Wanbang. Mr. Wu graduated from Nanjing University of Science and Technology (南京理工大學) majoring in international commerce in the PRC in 1996 and obtained a master's degree in business administration from Saint Joseph's University in the United States in 2005.

Ms. Xiaohui Guan (關曉暉), aged 52, has been a non-executive director of the Company since December 2018. Ms. Guan joined Fosun Pharma Group in May 2000, and successively served as a vice president, chief accountant and general manager of finance department, the senior vice president and chief financial officer, the executive president and chief financial officer of Fosun Pharma. Ms. Guan has been an executive director of Fosun Pharma since December 2021, and the vice chairman of the board of Fosun Pharma since January 2022. Ms. Guan currently serves as the vice president of Fosun International, a non-executive director of Gland Pharma and the chairman of the board of supervisors of Sinopharm. Ms. Guan served as a non-executive director of Sinopharm from March 2019 to March 2021. Prior to joining Fosun Pharma Group, Ms. Guan worked at Jiangxi Branch of Industrial and Commercial Bank of China. Ms. Guan obtained a bachelor's degree of economics from Jiangxi University of Finance and Economics (江西財經大學) in the PRC in June 2000 and acquired a master's degree of professional accountancy from Chinese University of Hong Kong in December 2007. Ms. Guan is qualified as Chinese Certified Public Accountant and a member of the Association of Chartered Certified Accountants.

Mr. Deyong Wen (文德鏞), aged 51, has been a non-executive director of the Company since July 2022. Mr. Wen joined Fosun Pharma Group in May 2002 and successively served as vice president, senior vice president, co-president, president of Fosun Pharma and serves as the chief executive officer of Fosun Pharma since June 2022, and serves as an executive director of Fosun Pharma since August 2022. Mr. Wen currently serves as a non-executive director of Sinopharm, a director of China National Medicines Corporation Ltd.* (國藥集團藥業股份有限公司) (Shanghai Stock Exchange stock code: 600511), and the chairman of the board of supervisors of China National Accord Medicines Corporation Ltd.* (國藥集團一致藥業股份有限公司) (Shenzhen Stock Exchange stock code: 000028). Mr. Wen served as a director of C.Q. Pharmaceutical Holdings Co., Ltd.* (重慶控股股份有限公司) (Shenzhen Stock Exchange stock code: 000950) and a director of Anhui Sunhere Pharmaceutical Excipients Co., Ltd.* (安徽山河藥用輔料股份有限公司) (Shenzhen Stock Exchange stock code: 300452). Prior to joining Fosun Pharma Group, Mr. Wen worked at Chongqing No. 6 Pharmaceutical Factory* (重慶製藥六廠) (the predecessor of Chongqing Yaoyou Pharmaceutical Co., Ltd.* (重慶藥友製藥有限責任公司)). Mr. Wen obtained a bachelor's degree in pharmacy from West China University of Medical Sciences (華西醫科大學) (currently known as West China School of Medicine of Sichuan University (四川大學華西醫學中心)) in the PRC in June 1995, and obtained a master's degree in business administration from Donghua University (東華大學) in the PRC in December 2007.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zihou Yan (晏子厚), aged 59, has been a non-executive director of the Company since February 2020. Mr. Yan has been the senior vice president of Fosun Pharmaceutical Industrial Development since January 2019. Previously, Mr. Yan served as a secretary of the CPC Committee and deputy president of Chengdu Institute of Biological Products Co., Ltd.* (成都生物製品研究所有限責任公司) (formerly known as Ministry of Health Chengdu Institute of Biological Products* (衛生部成都生物製品研究所) and Chengdu Institute of Biological Products* (成都生物製品研究所)) and as the general manager and deputy secretary of the CPC Committee of Shanghai Institute of Biological Products Co., Ltd.* (上海生物製品研究所有限責任公司). Mr. Yan obtained a bachelor's degree in science from Sichuan University (四川大學) in the PRC in December 1986, and a master's degree in business administration from the University of Electronic Science and Technology of China (中國電子科技大學) in March 2004.

Mr. Tak Young So (蘇德揚), aged 52, has been an independent non-executive director of the Company since September 2019. Mr. So has been the founding and managing partner of FastLane Group since July 2012, an independent non-executive director of CARsgen Therapeutics Holdings Limited (Stock Exchange stock code: 02171) since June 2021 and an independent non-executive director of Goodbaby International Holdings Limited (Stock Exchange stock code: 01086) since May 2022.

Mr. So has more than 20 years of experience in finance, accounting, investment and private equity businesses with global financial institutions and asset management companies. Mr. So served as a partner of Prospere Capital Limited from January 2018 to May 2022, the chief financial officer of PAG Capital from November 2011 to April 2012, the chief financial officer of Asia Pacific of asset management division for Deutsche Bank, Hong Kong from August 2007 to November 2011, the chief financial officer of Hamon Investment Group, an affiliate of Bank of New York Mellon from February 2005 to August 2007, the head of finance and operations of consumer banking in Hong Kong, head of asset and liability management of Greater China/Asia Pacific and chief financial officer of consumer, commercial and private bank in Hong Kong of ABN AMRO Bank N.V., Hong Kong from March 2002 to January 2005, the vice president of global capital market/Asia treasury and vice president of financial controls of Bank of America, Hong Kong from January 1998 to March 2002, group audit and project manager of strategic and performance improvement group in the Sydney office of Commonwealth Bank of Australia from January 1995 to January 1998, and an auditor with Ernst & Young, Hong Kong from February 1993 to December 1994. Mr. So obtained a bachelor's degree of business in accounting and finance and a master's degree of business administration in banking from the University of Technology in Sydney, Australia in April 1994 and September 1998, respectively. He has been a fellow member of the Australian Society of Certified Practising Accounting Australia (FCPA) since August 2011.

Dr. Lik Yuen Chan (陳力元), aged 53, has been an independent non-executive director of the Company since September 2019. Dr. Chan is a world famous academic in liver diseases with extensive achievement and recognition in clinical practice and research teaching. Dr. Chan joined Union Hospital of Hong Kong in November 2020 and served as the vice president and manager of Internal Medicine Department. Dr. Chan served various positions in the Chinese University of Hong Kong from 2002 to 2021, including a director of the Centre of Liver Health, associate dean of external affairs of the Faculty of Medicine and a professor of the Internal Medicine Department and the Department of Medicine and Therapeutics.

He is a member of Royal College of Physicians of the United Kingdom since November 1995, a fellow of Hong Kong College of Physicians since May 2000, a fellow of Hong Kong Academy of Medicine since June 2000, a fellow of Royal College of Physicians of Edinburgh since July 2003, a fellow of Royal College of Physicians of London since May 2006 and a fellow of the American Association for the Study Liver Diseases since October 2016. Dr. Chan obtained a bachelor's degree of medicine and surgery from the Chinese University of Hong Kong in December 1992, a doctor's degree of medicine from the Chinese University of Hong Kong in November 2001 and a master's degree in business administration from the Chinese University of Hong Kong in November 2014.

Dr. Guoping Zhao (趙國屏), aged 74, has been an independent non-executive director of the Company since September 2019. Dr. Zhao is a molecular microbiologist. Currently, he has been the chairman of the Advisory Committee of Key Laboratory of Synthetic Biology of the Center for Excellence in Molecular Plant Science of the Chinese Academy of Sciences (CAS) (中國科學院分子植物科學卓越創新中心合成生物學重點實驗室), the director of Department of Microbiology and Immunology at the School of Life Sciences of Fudan University (復旦大學生命科學學院微生物學與免疫學系) and the chief scientist of Biomedical Big Data Center at the Shanghai Institute of Nutrition and Health of CAS (中國科學院上海營養與健康研究所生物醫學大數據中心). Dr. Zhao was elected as a member of the Chinese Academy of Sciences (中國科學院院士) in 2005, a fellow of the World Academy of Sciences for the advancement of science in developing countries (發展中國家科學院院士) in 2011 and a member of the American Academy of Microbiology in February 2022.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. Zhao served various positions related to life science research at the CAS, such as the vice president of Shanghai Institutes for Biological Sciences (SIBC), CAS from July 1999 to December 2001, the director of Shanghai Research Center of Biotechnology, Chinese Academy of Sciences (中國科學院上海生物工程研究中心) from December 1996 to July 1999, and the researcher, assistant to director and successively as the deputy director of the Microorganism Secondary Metabolism Regulation Laboratory of IPPE, SIBS, CAS (中國科學院上海生命科學研究院植物生理生態研究所次生代謝分子調控研究開放實驗室) from December 1994 to September 1997. Dr. Zhao obtained a bachelor of science degree in micro-biology from Fudan University (復旦大學) in Shanghai in the PRC in July 1982 and a Ph.D degree in biochemistry from the Purdue University in the United States in December 1990.

Dr. Ruilin Song (宋瑞霖), aged 60, has been an independent non-executive director of the Company since September 2019. Dr. Song has been a non-executive director of Luye Pharma Group Ltd.* (綠葉製藥集團有限公司) (Stock Exchange stock code: 02186) since March 2017, an independent director of Shenzhen Chipscreen Biosciences Co., Ltd.* (深圳微芯生物有限公司) (Star Market of the Shanghai Stock Exchange stock code: 688321) since August 2018, an independent non-executive director of Simcere Pharmaceutical Group Limited* (先聲藥業集團有限公司) (Stock Exchange stock code: 02096) since November 2019, an independent non-executive director of Jacobio Pharmaceuticals Group Co., Ltd.* (加科思藥業集團有限公司) (Stock Exchange stock code: 01167) since December 2020, and an independent non-executive director of Mediwelcome Healthcare Management & Technology Inc.* (麥迪衛康健康醫療管理科技股份有限公司) (Stock Exchange stock code: 02159) since December 2020. Dr. Song served as an independent director of Jiangxi Boya Bio-pharmaceutical Co., Ltd.* (江西博雅生物製藥股份有限公司) (Shenzhen Stock Exchange stock code: 300294) from March 2017 to March 2021, an independent director of Shanxi Zhendong Pharmaceutical Co., Ltd.* (山西振東製藥股份有限公司) (Shenzhen Stock Exchange stock code: 300158) from June 2015 to June 2021, and an independent director of Tibet Aim Pharm. Inc.* (西藏易明西雅醫藥科技股份有限公司) (Shenzhen Stock Exchange stock code: 002826) from August 2015 to August 2021.

During the time he worked in the Legislative Affairs Office of the State Council of China, Dr. Song was mainly engaged in the legislative review and research of health and medicine for over 20 years. He participated in China's health and drug legislation activities from 1987 to 2006, in charge of the drafting and review of laws and regulations of the current Drug Administration Law of the PRC, Law of the PRC on the Prevention and Treatment of Communicable Diseases, Law of the PRC on Medical Practitioners, Regulations on Medical Institutions, and Regulations for the Supervision and Administration of Medical Devices, etc.

Since 2007, Dr. Song has been dedicated to the research of China's pharmaceutical policies, especially the policies for pharmaceutical innovation. Under his leadership, Research Center for Medicinal Policy of Chinese Pharmaceutical Association and PhIRDA (中國醫藥創新促進會) had finalised dozens of research projects. Dr. Song has been the executive president of PhIRDA (formerly known as China Pharmaceutical Industry Research and Development Association (中國醫藥工業科研開發促進會) from November 2009 to September 2019, the president of PhIRDA from September 2019 to September 2020, and executive president of PhIRDA since September 2020. Dr. Song also served as specially-invited expert of Talent Pool Participating in and Discussing State Affairs of the CPPCC, consultant expert of Participating in and Discussing State Affairs of the Chinese Peasants and Workers Democratic Party, executive deputy director of National Drug Policy and Industrial Development Research Center of China Pharmaceutical University, visiting researcher of Shanghai Jiao Tong University, member of Advisory Committee for Traditional Chinese Medicine Strategic Decision of National Medical Products Administration, expert of the Price and Cost Investigation Center of the National Development and Reform Commission, vice chairman of China Alliance of Rare Diseases (CARD), honorary director of Chinese Pharmaceutical Association (CPA), honorary director of Chinese Pharmacist Association and a member of the Biotech Advisory Panel of the Stock Exchange among other important social positions. Dr. Song obtained a bachelor of laws degree from China University of Political Science and Law (中國政法大學) in June 1985, a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in the PRC in November 2004 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University (中國藥科大學) in December 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF SUPERVISORS

Ms. Rongli Feng (馮蓉麗), aged 47, has been a shareholder representative supervisor of the Company and the chairman of the Board of Supervisors since May 2020. Ms. Feng served as the vice president of Fosun Pharma from April 2020 to March 2021, and she has been the senior vice president of Fosun Pharma since March 2021. Ms. Feng currently serves as a non-executive director of Sinopharm and a non-executive director of Sisram Medical Ltd.* (復銳醫療科技有限公司) (Stock Exchange stock code: 01696). Moreover, Ms. Feng serves as the director and supervisor in certain subsidiaries of Fosun Pharma. Previously, Ms. Feng served as a human resources supervisor of Sealed Air Packaging (Shanghai) Co., Ltd.* (希悅爾包裝(上海)有限公司), a human resources manager of Grundfos Pumps (Shanghai) Co., Ltd.* (格蘭富水泵(上海)有限公司), the Asia-Pacific human resources manager of Emerson Electric (China) Investment Co., Ltd.* (艾默生電氣(中國)投資有限公司), the China human resources planning manager of Dow Chemical (China) Co., Ltd.* (陶氏化學(中國)有限公司), the director of human resources of Shanghai Roche Pharmaceutical Co., Ltd.* (上海羅氏製藥有限公司), the senior director of human resources at F. Hoffmann-La Roche AG, the deputy chief human resources officer of Fosun High Tech and the managing director of the human resources department of Shanghai Fosun Venture Capital Investment Management Co., Ltd.* (上海復星創業投資管理有限公司), etc. Ms. Feng graduated from Shanghai University (上海大學) in China with a major in microcomputer application in July 1996. In February 2002, she obtained a master's degree in business administration from Columbia Southern University in the United States through distance learning.

Mr. Deli Kong (孔德力), aged 48, has been a shareholder representative supervisor of the Company since August 2016. Mr. Kong worked at Fosun Pharma from June 2005 to December 2012, with his last position as a patent affairs senior officer. Mr. Kong has been working with Fosun Pharma Industrial Development since January 2013 and successively served as the senior researcher, deputy director, assistant to head of research institute, minister of policy and information research centre and deputy head of the research institute and minister of policy and information research centre and the vice president and the executive vice president of the global R&D centre. Prior to joining the Fosun Pharma Group, Mr. Kong also previously served as an assistant researcher at the Shanghai Institute of Biochemistry and Cell Biology of the Chinese Academy of Sciences* (中國科學院上海生物化學與細胞生物研究所). Mr. Kong obtained a master's degree in biochemical engineering from the School of Engineering of East China University of Science and Technology (華東理工大學) in July 1999.

Mr. Yuan Yexing (袁曄星), aged 39, has been an auditing director of the Company since January 2023. He has also been a supervisor of the Company and a supervisor of Henlius Biopharmaceuticals, Henlius Pharmaceutical and Jollin Lab, which are the subsidiaries of the Company, since January 2023. Before joining the Group, Mr. Yuan served as an auditor in WelcoHuaGao Technology (Suzhou) Co., Ltd.* (華高科技(蘇州)有限公司), an auditing manager in Minth Group Limited (Stock Exchange stock code: 00425), an auditing manager in Trina Solar Co., Ltd. (Shanghai Stock Exchange stock code: 688599), a senior auditing manager in Cobest Enterprise Development (Shanghai) Co., Ltd., a senior auditing manager in GCL System Integration Technology Co., Ltd. (Shenzhen Stock Exchange stock code: 002506) and an auditing director in Fosun Pharma. Mr. Yuan obtained a bachelor's degree in accounting in Nanjing University of Information Science & Technology (南京信息工程大學) in June 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT OF THE GROUP

The chief executive officer, the president and other members of the senior management of the Group are responsible for the day-to-day management of the business of the Company. Certain information relating to the chief executive officer is set out in “– Board of Directors” above.

Mr. Jun Zhu (朱俊), aged 44, has served as the senior vice president and chief medical officer of Henlius Biopharmaceuticals from December 2020 to July 2021, the senior vice president and chief medical officer of the Company from July 2021 to November 2021, and the president of the Company since November 2021. Mr. Zhu has served as the director of Aton Ruilin since March 2022, the director of Henlius Biopharmaceuticals, Henlius Pharmaceutical and Hengenix since July 2022, the chairman and general manager of Jollin Lab since August 2022, and the president of Hengenix since March 2023.

Mr. Zhu has approximately 20 years' experience in biotechnology and pharmaceutical industry. Before joining the Group, Mr. Zhu served as the internal medicine physician in Huashan Hospital affiliated to Fudan University in Shanghai, the project manager and global vice-president of IQVIA Holdings Inc., the general manager (Greater China) of Omnicare Clinical Research Inc., the founder and chief executive officer of Shanghai PPC Biopharmaceutical Technology Co., Ltd.* (上海百利佳生醫藥科技有限公司). Mr. Zhu obtained a bachelor's degree in clinical medicine from Fudan University (復旦大學) in China in July 2001 and an EMBA degree from Cheung Kong Graduate School of Business (長江商學院) in China in September 2018.

Ms. Wei Huang, aged 55, served as the senior vice president of Henlius Biopharmaceuticals from December 2019 to October 2020, the senior vice president and chief operating officer of the Company since October 2020 and the chairman of the board and general manager of Aton Ruilin since July 2022.

Ms. Huang has over 25 years of senior management and leadership experience in the pharmaceutical and biotechnology industries, including process development, technology transfer, manufacturing, process and facility design, capital project execution and quality system implementation. Prior to joining the Group, Ms. Huang served as a research assistant of Center of Marine Biotechnology, the process development engineer of Baxter (AMVAX) Inc., the project manager of New Brunswick Scientific Inc., the process engineer and the director of process engineer of Fluor Corp., the senior/chief process engineer of Bechtel Corp., the vice president of process development and engineering of REG Life Science Inc., and the chief consultant of Newa Technology Inc. Ms. Huang obtained a bachelor's degree in Biochemical Engineering from the East China Institute of Chemical Technology (華東化工學院) in July 1990 in China and a master's degree in Chemical and Biochemical Engineering from the University of Maryland in the United States in August 1993.

Mr. Xinjun Guo (郭新軍), aged 51, served as the vice president and secretary to the Board of the Company from February 2010 to March 2019, the senior vice president and secretary to the Board of the Company since March 2019, and ceased to be the secretary to the Board while continuing to act as the senior vice president of the Company since November 2021. Mr. Guo served as the director of Henlius Pharmaceutical and Henlius Biopharmaceuticals since November 2020, and the chief executive officer and president of Henlius Pharmaceutical since March 2021. Mr. Guo served as the director of Henlius Industrial since February 2021, the chairman of the board and general manager of Jollin Lab from December 2021 to August 2022 and the director of Jollin Lab since August 2022. Prior to joining the Group, Mr. Guo previously served as a researcher, project manager, research manager and chief engineer of Hangzhou Jiuyuan Gene Engineering Co., Ltd.* (杭州九源基因工程有限公司), the director and deputy general manager of Hangzhou Taishi Biotechnology Co., Ltd.* (杭州泰士生物科技有限公司), the secretary to the board of directors and deputy general manager of Zhejiang Cifu Pharmaceutical Co., Ltd.* (浙江賜富醫藥有限公司), and the chief engineer of Shanghai Clone High Technology Co., Ltd.* (上海克隆高技術有限公司) (now known as Shanghai Kaimao Bio-Pharmaceutical Co., Ltd.* (上海凱茂生物醫藥有限公司)).

Mr. Guo has many years of experience in biopharmaceutical R&D and industrialization, and is familiar with different domestic laws and regulations. He has been involved in the development of the recombinant human granulocyte colony-stimulating factor (rhG-CSF) injection, the first listed Category II new drug in China. He was awarded Outstanding Technology Development Talent of Hangzhou, Second Prize for Zhejiang Province's Science and Technology Progress Award, First Prize for Hangzhou's Science and Technology Progress Award and Shanghai May 1st Labour Medal. Mr. Guo is the vice-chairman of Shanghai Biopharmaceuticals Industry Association and the vice director of the Monoclonal Antibody Drug Professional Committee. Mr. Guo received his bachelor's degree from Genetics and Genetic Engineering Department of Fudan University (復旦大學) in China in July 1993, and a master's degree of business administration from Zhejiang University (浙江大學) in China in March 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. JIFENG ZHANG, aged 52, served as the senior vice president and chief technology officer of Hengenix from June 2022 to December 2022, and the senior vice president and chief technology officer of the Company since December 2022.

Dr. ZHANG has over 20 years of experience in biomedical development, covering the verification, clinic trial and commercial production of targets. Prior to joining the Group, Dr. ZHANG conducted postdoctoral research at the Biotechnology Process Engineering Center (生物技術過程工程中心) of Massachusetts Institute of Technology, and biopharmaceutical development at MedImmune LLC/AstraZeneca, Eli Lilly and Company, Amgen Inc., Allergan Inc., Baxter Healthcare Corporation and other companies. In addition, he served as the senior director and head of global drug delivery/product integration at Sanofi Genzyme Corporation; the executive vice president and head of CMC at DynamiCure Biotechnology LLC. Dr. ZHANG obtained a bachelor's degree in science and a doctoral's degree from Purdue University in July 1992 and August 1996, respectively.

Mr. Cheng Yu (余誠), aged 45, served as the general manager of the marketing department of the Company from August 2019 to February 2020 and the vice president of Henlius Biopharmaceuticals from February 2020 to November 2021. He has been the vice president and chief business officer of the Company since November 2021. Mr. Yu has extensive experience in product portfolio management, product strategy development and launching of new products. He served as the sales representative of Glaxo Wellcome Pharmaceutical Co., Ltd.* (葛蘭素威康製藥有限公司). He successively served as senior pharmaceutical representative, district sales manager, regional sales manager, product manager, marketing manager and marketing director of Shanghai Roche Pharmaceutical Co., Ltd.* (上海羅氏製藥有限公司), and the head of the marketing department of Amgen Inc. Mr. Yu obtained a bachelor's degree in medicinal chemistry from Shanghai Medical College of Fudan University (復旦大學上海醫學院) (formerly known as Shanghai Medical University) in July 1999 and an EMBA degree from Fudan University (復旦大學) in China in June 2016.

Mr. Xinlei Li (李鑫磊), aged 41, has served as the chief financial officer of the Company, Henlius Biopharmaceuticals and Henlius Pharmaceutical since December 2020, and served as a director of Henlius Industrial since February 2021. Prior to joining the Group, Mr. Li consecutively served as the business development manager and senior business development manager of Fosun Pharma Industrial Development, the senior manager, deputy director, director, assistant to general manager and deputy general manager of investor relations department, and the deputy general manager and general manager of investor relations and capital development department, assistant to the president and general manager of investor relations and capital development department, the vice president and general manager of investor relations and capital development department of Fosun Pharma. Mr. Li obtained a bachelor's degree of science in Pharmacy from Sichuan University (四川大學) in China in July 2004, a master's degree of science from the University of Huddersfield in the United Kingdom in October 2006, and a master's degree from the IMBA Programme of Fudan University – Hong Kong University (復旦大學 – 香港大學) in November 2016.

Ms. Li Junhua (李君華), aged 47, has served as the vice president and chief human resources officer of the Company since April 2022. Prior to joining the Group, Ms. Li has served as the senior director of human resources of AstraZeneca Investment (China) Co., Ltd.* (阿斯利康(中國)投資有限公司), and the vice president of human resources of Chia-Tai Tianqing Pharmaceutical Group Co., Ltd.* (正大天晴藥業集團股份有限公司). Ms. Li obtained a bachelor's degree in economics from Shandong University of Finance and Economics (山東財政學院), majoring in international finance in July 1998, and a master's degree in business administration from Webster University in U.S. in December 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Ping Cao, aged 51, served as the vice president of Hengenix from July 2018 to October 2020 and has been the vice president and chief business development officer of the Company since October 2020. Prior to joining the Group, Ms. Cao successively served as the Associate Director of Contract Manufacturing Operation (CMO) and Global Manufacturing and Supply (GMS) at Bristol-Myers Squibb Company, and the head of Technology Platform Trading project of Business Development Department, and the senior director of Business Development Department of Abzena PLC. Ms. Cao also serves as a member of the Advisory Council of Meneldor B.V. since February 2021. Ms. Cao obtained a bachelor's degree in materials science and technology from Tianjin University (天津大學) in China in July 1994, a master's degree in chemical engineering from Tianjin University (天津大學) in China in March 1999, and a master's degree in organic chemistry from Michigan State University in the United States in April 2004.

Ms. Yan Wang (王燕), aged 35, joined the Company since July 2013 and has successively acted as science & technology administrative commissioner, supervisor of the marketing department, securities affairs representative and manager of public affairs department, director of the office of board secretary and executive director of public relationship of the Company, and was appointed as the secretary to the Board and a joint company secretary of the Company since November 2021. Ms. Wang obtained a bachelor's degree in bio-pharmacy from Nanjing Forestry University (南京林業大學) in China in June 2010 and a master's degree in biochemistry in July 2013 from Nanjing Forestry University (南京林業大學) in China.

JOINT COMPANY SECRETARIES

Ms. Yan Wang (王燕) was appointed as a joint company secretary of the Company on 5 November 2021. See "Senior Management of the Group" above for further details.

Ms. Kam Mei Ha Wendy (甘美霞), age 55, was appointed as a joint company secretary of the Company on 18 August 2022. Ms. Kam is an executive director of Corporate Services Department of Tricor Services Limited, having over 25 years of experience in the corporate secretarial field and is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Chartered Governance Institute (formerly "The Hong Kong Institute of Chartered Secretaries") and The Chartered Governance Institute (formerly "The Institute of Chartered Secretaries and Administrators") in the United Kingdom. She graduated from City Polytechnic of Hong Kong (now known as City University of Hong Kong) with a professional diploma in company secretaryship and administration in November 1990.

INDEPENDENT AUDITOR'S REPORT



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

安永會計師事務所
香港鰂魚涌英皇道 979 號
太古坊一座 27 樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Shanghai Henlius Biotech, Inc.
(Established in the People's Republic of China with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Shanghai Henlius Biotech, Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 100 to 178, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the "Basis for qualified opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

As explained in note 20 to the consolidated financial statements, on 25 September 2019, the Company entered into an investment management agreement (the "IMA") with AMTD Global Markets Limited ("AMTD"). Pursuant to the IMA, the Company deposited a total amount of USD117,000,000 into the investment portfolio account with AMTD (the "AMTD Account") and engaged AMTD to provide investment management services. During the years ended 31 December 2020 and 2021, the Company redeemed in total of USD30,640,000 from AMTD and a provision of USD30,000,000 (equivalent to RMB191,271,000) was provided for potential losses based on the Company's best estimate, with the assistance of an external legal counsel, in the year ended 31 December 2021. As at 31 December 2021, the outstanding balance in the AMTD Account amounted to USD86,360,000 (equivalent to RMB550,610,000) and was recorded in restricted cash and bank balances and the provision was recorded in other payables and accruals.

The management of the Company represented that during the year ended 31 December 2022, the Company entered into notes purchase agreements to purchase promissory notes issued by three private entities (collectively, the "Notes") with the total principal amounts of USD86,360,000 (equivalent to RMB550,610,000) through the AMTD Account, which was recorded in financial assets at fair value through profit or loss. The Company has engaged an independent valuer to assess the fair value of the Notes and concluded that the fair value of the Notes as at 31 December 2022 was USD23,000,000 (equivalent to RMB160,186,000) giving rise to a total fair value loss of RMB390,424,000.

BASIS FOR QUALIFIED OPINION *(CONTINUED)*

The management of the Company provided us with the AMTD Account statement as at 31 December 2022 obtained from AMTD. However, the management of the Company were unable to provide us with the signed notes purchase agreements or other adequate evidence to support the existence and valuation of the Notes. We were not able to obtain the necessary corroborative evidence from the counterparties of the Notes neither. Because of the above scope limitations, and there were no alternative audit procedures that we could perform, we are unable to satisfy ourselves as to whether any adjustments are necessary to the following accounts and disclosures in the consolidated financial statements: i) the financial assets at fair value through profit or loss amounted to RMB160,186,000 as at 31 December 2022 as stated in consolidated statement of financial position and disclosed in note 20 to the consolidated financial statements; ii) other expenses amounted to RMB199,153,000 representing the additional net fair value losses charged to the consolidated statement of profit and loss for the year ended 31 December 2022 and disclosed in note 7 to the consolidated financial statements; and iii) "Changes in restricted cash for investments" amounted to RMB550,610,000 and "Purchase of investment measured at fair value through profit or loss" amounted to RMB550,610,000 as stated in the statement of consolidated cashflow for the year ended 31 December 2022. Any adjustments to the figures as described above might have a consequential effect on the Group's financial performance and cash flows for the year ended 31 December 2022 and the financial position of the Group as at 31 December 2022 and the related disclosures thereof in the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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. In addition to the matters described in the basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Capitalisation of development expenditure During the year ended 31 December 2022, the expenditure incurred on projects to develop new biopharmaceutical products of RMB788,688,000 was capitalised in intangible assets – deferred development costs in the consolidated financial statements. The expenditure on development activities was capitalised and deferred when all the criteria mentioned in note 2.4 <i>Summary of Significant Accounting Policies</i> were satisfied. This matter was significant to our audit because significant management estimation and judgements were required in determining whether the development expenditure met the capitalisation criteria. The disclosures about the capitalisation of development expenditure are included in note 2.4 <i>Summary of Significant Accounting Policies</i>, note 3 <i>Significant Accounting Judgements and Estimates</i> and note 15 <i>Intangible Assets</i> to the consolidated financial statements.	Our audit procedures included, among others, assessing whether the capitalisation policy adopted was in line with IFRSs, obtaining an understanding of the Group's internal approval procedures regarding the capitalisation of an development expenditure by conducting interview with key management in charge of research, development and industrialisation of various projects, and obtaining certifications related to different stages of development activities and commercial and technical feasibility reports prepared by management. We also focused on the adequacy of the disclosures in the consolidated financial statements.
Impairment of intangible assets The carrying values of indefinite-life intangible assets (non-patent technologies) and deferred development costs in the consolidated financial statements amounted to RMB48,921,000 and RMB1,629,152,000, respectively, as at 31 December 2022. In accordance with IFRSs, the Group is required to perform impairment testing for indefinite-life intangible assets and deferred development costs at least on an annual basis. The impairment testing is based on the recoverable amount of each individual asset. This matter was significant to our audit because the impairment testing process was complex and involved significant management judgements and estimates. The disclosures about the impairment of indefinite-life and deferred development assets are included in note 2.4 <i>Summary of Significant Accounting Policies</i>, note 3 <i>Significant Accounting Judgements and Estimates</i> and note 15 <i>Intangible Assets</i> to the consolidated financial statements.	Our audit procedures included, among others, involving internal valuation specialists to assist us in evaluating the assumptions and methodologies used by management, in particular, discount rates, royalty rate, contributory asset charges and growth rate beyond budget period used in the valuation method based on cash flow forecast of each individual asset. We paid attention to the forecasts with respect to future revenues, operating results and development costs to be incurred to complete the development process by comparing the forecasts with the business development plan of each individual asset. We also focused on the adequacy of the disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of exclusive license contracts The Group entered into several exclusive license contracts (the "Contracts") for the development and commercialisation of candidate drugs. The consideration of the Contracts included upfront fee, milestone payments based on completion of certain milestone events and royalties based on future sales. For the year ended 31 December 2022, the Group recognised revenue of license and research and development services from the Contracts amounting to RMB211,016,000 and RMB325,484,000, respectively. As part of the accounting for revenue recognition under the Contracts, significant management's judgements and estimations are involved to identify the performance obligations, determine whether each performance obligation is satisfied overtime or at a point in time, estimate the variable considerations and allocate the consideration based on the standalone selling price of each performance obligation. The Group's disclosures about revenue recognition under the Contracts are included in note 2.4 <i>Summary of Significant Accounting Policies</i>, note 3 <i>Significant Accounting Judgements and Estimates</i> and note 5 <i>Revenue</i> to the consolidated financial statements.	Our audit procedures included, among others, evaluating management's accounting policies and assessing management's processes and controls relating to revenue recognition under the Contracts. We inspected the Contracts, discussed with management about the nature, business rationale and the progress of the Contracts. We evaluated management judgements in identifying performance obligations by assessing whether the license and research and development services within the Contracts were distinct, and in determining whether each performance obligation was satisfied overtime or at a point in time by examining the related terms in the Contracts and the related supporting evidences. We checked the conditions and the current status of the payments made by the customers and the achievement of the milestone events to assess management's judgement and estimation in the variable considerations and the satisfaction of each performance obligations. We involved internal specialists to assist us in the assessment of the methodologies and the assumptions used by management, in particular, the discount rates, royalty rates and the cost mark-up rate, in determination of the standalone selling price of each performance obligation. We performed recalculation to check the mathematical accuracy based on management's model to determine the revenue recognised for each performance obligation. We also focused on the adequacy of the disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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 Lawrence K. W. Lau.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	3,214,730	1,682,472
Cost of sales		(844,621)	(522,748)
Gross profit		2,370,109	1,159,724
Other income and gains	6	105,552	45,091
Selling and distribution expenses		(1,049,292)	(520,261)
Administrative expenses		(354,038)	(280,606)
Impairment losses on financial assets, net		(1,638)	(174)
Research and development expenses		(1,394,514)	(1,023,930)
Other expenses		(264,394)	(251,763)
Finance costs	8	(105,672)	(84,820)
LOSS BEFORE TAX	7	(693,887)	(956,739)
Income tax expense	11	(1,372)	(27,313)
LOSS FOR THE YEAR		(695,259)	(984,052)
Attributable to:			
Owners of the parent		(695,259)	(984,052)
Non-controlling interests		—	—
		(695,259)	(984,052)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	13	(1.28)	(1.83)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
LOSS FOR THE YEAR	(695,259)	(984,052)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	(3,997)	(448)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(3,997)	(448)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(699,256)	(984,500)
ATTRIBUTABLE TO:		
Owners of the parent	(699,256)	(984,500)
Non-controlling interests	—	—
	(699,256)	(984,500)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,817,449	1,228,885
Intangible assets	15	4,332,283	3,634,931
Right-of-use assets	16	412,422	438,201
Other non-current assets	17	170,612	223,668
Total non-current assets		6,732,766	5,525,685
CURRENT ASSETS			
Inventories	18	757,312	420,112
Trade receivables	19	455,509	295,741
Financial assets at fair value through profit or loss	20	160,186	—
Prepayments, deposits and other receivables	21	138,057	223,973
Cash and bank balances	22	680,478	707,333
Total current assets		2,191,542	1,647,159
CURRENT LIABILITIES			
Trade payables	23	713,552	383,470
Other payables and accruals	24	1,443,451	867,278
Contract liabilities	25	322,420	138,303
Interest-bearing bank and other borrowings	26	2,522,155	1,570,674
Total current liabilities		5,001,578	2,959,725
NET CURRENT LIABILITIES		(2,810,036)	(1,312,566)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,922,730	4,213,119
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	1,154,940	1,052,263
Other long-term payables	27	292,370	54,425
Contract liabilities	25	645,594	653,934
Deferred income	29	193,494	155,741
Total non-current liabilities		2,286,398	1,916,363
Net assets		1,636,332	2,296,756
EQUITY			
Share capital	30	543,495	543,495
Reserves	31	1,092,837	1,753,261
Equity attributable to owners of the parent and total equity		1,636,332	2,296,756

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to owners of the parent					
	Share capital RMB'000	Share premium* RMB'000	Other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000
At 1 January 2021	543,495	5,954,236	(505,208)	(2,573)	(2,791,178)	3,198,772
Loss for the year	—	—	—	—	(984,052)	(984,052)
Other comprehensive loss for the year:						
Exchange differences related to foreign operations		—	—	(448)	—	(448)
Total comprehensive loss for the year	—	—	—	(448)	(984,052)	(984,500)
Vesting of restricted shares (note 32)	—	55,356	(26,362)	—	—	28,994
Equity-settled share-based payments (note 32)	—	—	53,490	—	—	53,490
At 31 December 2021	543,495	6,009,592	(478,080)	(3,021)	(3,775,230)	2,296,756

	Attributable to owners of the parent					
	Share capital RMB'000	Share premium* RMB'000	Other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000
At 1 January 2022	543,495	6,009,592	(478,080)	(3,021)	(3,775,230)	2,296,756
Loss for the year	—	—	—	—	(695,259)	(695,259)
Other comprehensive loss for the year:						
Exchange differences related to foreign operations	—	—	—	(3,997)	—	(3,997)
Total comprehensive loss for the year	—	—	—	(3,997)	(695,259)	(699,256)
Vesting of restricted shares (note 32)	—	42,165	(16,554)	—	—	25,611
Equity-settled share-based payments (note 32)	—	—	13,221	—	—	13,221
At 31 December 2022	543,495	6,051,757	(481,413)	(7,018)	(4,470,489)	1,636,332

* These reserve accounts comprise the consolidated other reserves of RMB1,092,837,000 (2021: RMB1,753,261,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(693,887)	(956,739)
Adjustments for:			
Finance costs	8	105,672	84,820
Depreciation of property, plant and equipment	7	113,828	83,976
Depreciation of right-of-use assets	7	64,520	49,607
Amortisation of intangible assets	7	99,255	66,593
Amortisation of deferred income	29	(12,387)	(34,636)
Foreign exchange (gain)/loss, net	7	(32,919)	16,662
Impairment of financial assets, net	7	1,638	174
Listing expenses	7	—	159
Write-down of inventories to net realisable value	7	24,669	7,566
Impairment of deferred development costs, net	7	—	28,848
Loss on disposal of items of property, plant and equipment	7	248	932
Gain on disposal of items of right-of-use assets		—	—
Provision for the contract loss	7	—	191,271
Loss on fair value adjustment of financial assets at fair value through profit or loss	7	199,153	—
Gain on the forgiveness of a bank borrowing		—	(8,389)
Share-based payment expense	7	12,517	48,417
Cash outflows before working capital changes		(117,693)	(420,739)
Increase in inventories		(340,640)	(91,708)
Increase in trade receivables		(161,406)	(99,702)
Decrease in prepayments, other receivables and other assets		132,231	117,994
Increase in pledged deposits		(5,260)	(1,741)
Increase in trade payables		312,564	20,041
Increase in other payables and accruals		936,057	262,422
Increase in contract liabilities		176,999	208,343
Increase in deferred income		50,140	95,482
Cash from operations		982,992	90,392
Tax paid		(1,372)	—
Net cash flows from operating activities		981,620	90,392
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(584,968)	(460,431)
Additions to intangible assets		(780,324)	(670,762)
Changes in restricted cash for investments	20	550,610	(550,610)
Purchase of investments measured at fair value through profit or loss	20	(550,610)	—
Proceeds from disposal of items of property, plant and equipment		6,561	549
Net cash flows used in investing activities		(1,358,731)	(1,681,254)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		2,859,028	2,095,706
Repayment of bank and other borrowings		(1,785,465)	(1,295,651)
Principal portion of lease payments	16(b)	(100,795)	(68,390)
Payment of listing expenses		—	(159)
Interest paid		(114,752)	(83,204)
Net cash flows from financing activities		858,016	648,302
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		480,905	(942,560)
Cash and cash equivalents at beginning of year		154,982	1,114,309
Effect of foreign exchange rate changes, net		37,589	(16,767)
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	673,476	154,982
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		680,478	707,333
Less: Pledged deposits and restricted cash	22	7,002	552,351
Cash and cash equivalents as stated in the statement of cash flows	22	673,476	154,982

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

1. CORPORATE AND GROUP INFORMATION

Shanghai Henlius Biotech, Inc. (the “Company”) is a joint stock company with limited liability established in the People’s Republic of China (“PRC”). The registered office of the Company is located at Room 330, Complex Building, No.222 Kangnan Road, China (Shanghai) Pilot Free Trade Zone, the PRC.

The Company and its subsidiaries are involved in the following principal activities:

- biopharmaceutical research and development (“biopharmaceutical R&D”)
- biopharmaceutical service
- biopharmaceutical production and sales

In the opinion of the directors of the Company (the “Directors”), the ultimate holding company of the Company is Fosun International Holdings Limited which is a company registered in Hong Kong, and the ultimate controlling shareholder of the Company is Mr. Guo Guangchang.

The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 25 September 2019.

INFORMATION ABOUT SUBSIDIARIES

The particulars of the Company’s principal subsidiaries are as follows:

Name	Place and date of incorporation, place of operations, and kind of legal entity	Issued ordinary/ registered share capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
Shanghai Henlius Biopharmaceuticals Co., Ltd. (上海復宏漢霖生物製藥有限公司)*	Shanghai, PRC 26 June 2014, limited liability company	Registered share capital of Renminbi (“RMB”) 740,000,000	100%	—	Biopharmaceutical production; biopharmaceutical service; and biopharmaceutical R&D
Hengenix Biotech, Inc. (“Hengenix”)	CA, United States of America 18 August 2015, limited company	Registered share capital of United States dollar (“USD”) 40,250,000/88,905,000	100%	—	Biopharmaceutical R&D and biopharmaceutical service
Shanghai Henlius Biologics Co., Ltd. (上海復宏漢霖生物醫藥有限公司)*	Shanghai, PRC 26 December 2017, limited liability company	Registered share capital of Renminbi (“RMB”) 540,000,000/1,000,000,000	100%	—	Biopharmaceutical production

- * The English names of these subsidiaries represent the best efforts made by management of the Company to translate the Chinese names as they do not have official English names registered in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand except when otherwise indicated.

The Group had net current liabilities of RMB2,810,036,000 as at 31 December 2022. Having taken into account the unused banking facilities and the expected cash flows from operating, financing and investing activities, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis.

BASIS OF CONSOLIDATION

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

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

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

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 it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRS Standards 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ²
IFRS 17	<i>Insurance Contracts</i> ¹
Amendments to IFRS 17	<i>Insurance Contracts</i> ^{1,5}
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i> ⁶
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{2,4}
Amendments to IAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ²
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to IAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

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

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

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after January 1, 2024.

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

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

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 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 between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FAIR VALUE MEASUREMENT

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

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

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and 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 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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 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 the statement of profit or loss in the period in which it arises unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

Plant and machinery	9.5%-19%
Motor vehicles	19%
Office and other equipment	9.5%-19%
Electronic equipment	9.5%-19%
Leasehold improvements	10%-20%

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

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS (OTHER THAN GOODWILL) (CONTINUED)

NON-PATENT TECHNOLOGIES

Non-patent technologies have been classified as assets with an indefinite useful life. They have indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows, the extension cost is low and assets can be used indefinitely. They are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful lives of such intangible assets are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

MEDICINE LICENCES

Medicine licences with finite useful lives are measured initially at cost, which transfer from the deferred development costs after such medicine getting the medicine licences from the related authorities. Medicine licenses are amortised on the expected pattern of consumption of the future economic benefits, the expected pattern of consumption of the future economic benefits embodied in the medicine licences are assessed by the Group after considering the similar medicine and the market condition.

OFFICE SOFTWARE

Purchased office software is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated useful life of 5 to 10 years. The useful lives of the software are assessed by the Group after considering the contractual term, the current functionality equipped by the software, using plan and operation needs of the software. The software served as basement IT system or technological platform is amortised over a long period as 10 years. Other software served as fast updating applications and single application software is amortised over a shorter period, such as 5 years.

RESEARCH AND DEVELOPMENT COSTS

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

The expenditure on an internal research and development project is classified into expenditure in the research phase and expenditure in the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Expenditure in the development phase 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.

The specific criteria for the classification of expenditures on the research phase and expenditures on the development phase are as follows:

As for biosimilar products, expenditures on the research phase are all the expenditures incurred before the commencement of Phase I clinical trial for the medicines. Expenditures on the development phase are all the expenditures incurred after the commencement of Phase I clinical trial for the medicines. Commencement of Phase I clinical trial is determined based on the approval by authorities.

As for bio-innovative products, expenditures on the research phase are all the expenditures incurred before the commencement of Phase III clinical trial for the medicines. Expenditures on the development phase are all the expenditures incurred after the commencement of Phase III clinical trial for the medicines.

Deferred development costs are stated at cost less any impairment losses and will be transferred to medicine licences when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

LEASES

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

GROUP AS A LESSEE

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

(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:

Land	50 years
Plant and machinery	5 to 10 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 terminating 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 expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. 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 the in-substance fixed lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

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

The Group applies the short-term lease recognition exemption to its short-term leases of 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). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES (CONTINUED)

GROUP AS A LESSOR

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

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

FINANCIAL ASSETS

INITIAL RECOGNITION AND MEASUREMENT

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

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

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

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

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

SUBSEQUENT MEASUREMENT

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

FINANCIAL ASSETS AT AMORTISED COST (DEBT INSTRUMENTS)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***FINANCIAL ASSETS** *(CONTINUED)***FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. 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 its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS

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

GENERAL APPROACH

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 1 year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)****SIMPLIFIED APPROACH**

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

FINANCIAL LIABILITIES**INITIAL RECOGNITION AND MEASUREMENT**

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

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

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

SUBSEQUENT MEASUREMENT

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

FINANCIAL LIABILITIES AT AMORTISED COST (LOANS AND BORROWINGS)

After initial recognition, interest-bearing loans and 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 the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated 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, to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

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

PROVISIONS

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

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

The Group provides for warranties in relation to the sale of certain biopharmaceutical products during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of returns, discounted to their present values as appropriate.

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 countries in which the Group operates.

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

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

- (a) 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 combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**INCOME TAX (CONTINUED)**

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:

- (a) 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
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, associates 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.

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 or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

GOVERNMENT GRANTS

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

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

REVENUE RECOGNITION**REVENUE FROM CONTRACTS WITH CUSTOMERS**

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

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

SALE OF BIOPHARMACEUTICAL PRODUCTS

Revenue from the sale of biopharmaceutical products is recognised at the point in time when control of the asset is transferred to the customer, generally on receipt of the biopharmaceutical products. Some contracts for the sale of biopharmaceutical products provide customers with sales rebates. Sales rebates give rise to variable consideration.

LICENSE

The Group grant commercialisation licenses or intellectual property licenses (collectively, the "License") of certain products. The License are either sold separately or bundled together with research and development service to one customer.

Contracts for bundled License and research and development service are comprised of two performance obligations because the promises to transfer the License and provide research and development service are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of the License and research and development services.

For the commercialization licenses, the Group would undertake activities, such as being the exclusive supplier of the certain biopharmaceutical products related to the License, which significantly affect the License. Thus, the customers get a right to access the License and the revenue of License is recognised overtime during the expected commercialisation period after obtaining the commercialisation authorisation from the local authorities. And for the intellectual property licenses which the customer get a right to use the License, the revenue of the License is recognized at a point of time, when the control of the license is transferred to the customer and the customer is able to consume and benefit from the License. The consideration for License comprises fixed element and variable elements. The variable elements are included in the transaction price when the Group can conclude that it is highly probable there will not be a significant reversal of revenue.

RESEARCH AND DEVELOPMENT SERVICE

The Group provides research and development services that are either rendered separately or bundled together with the License to a customer.

Contracts for bundled research and development service and License are comprised of two performance obligations because the promises to provide research and development service and transfer the License are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of the research and development services and License.

For the research and development service which the customers can't control the service or consume the benefit or have no enforceable obligation to pay for the service provided to date, the Group concluded that the research and development service can be identified as a performance obligation satisfied at a point in time. The stand-alone selling prices is recognised as revenue when the customers accept and can benefit from this service.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**REVENUE RECOGNITION (CONTINUED)****RESEARCH AND DEVELOPMENT SERVICE (CONTINUED)**

For research and development service which the customer simultaneously receives and consumes the benefits provided by the Group, the revenue from research and development services is recognised over time, using an input or output method to measure progress towards complete satisfaction of the service. The progress is determined on the basis of the cost expended relative to the total expected cost to complete the service.

REVENUE FROM OTHER SOURCES

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

OTHER INCOME

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

CONTRACT ASSETS

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, 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.

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 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

SHARE-BASED PAYMENTS

The Group operates several share-award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. 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 reference to the lasted market price of share transaction or determined by an external valuer, further details of which are given in note 32 to the financial statements.

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

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

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms have 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 has 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 are a modification of the original award, as described in the previous paragraph.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)***OTHER EMPLOYEE BENEFITS****PENSION SCHEME**

The employees are required to participate in a defined central pension scheme managed by the local municipal government of the areas in the PRC. The PRC companies are required to contribute a certain percentage of the relevant part of the payroll of these employees to the central pension scheme. The Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

ACCOMMODATION BENEFITS

According to the relevant PRC rules and regulations, the PRC companies now comprising the Group and their employees are each required to make contributions which are in proportion to the salaries and wages of the employees to an accommodation fund administered by the government agencies in the PRC. There is no further obligation on the part of the Group except for such contributions to the accommodation fund. Contributions to an accommodation fund administered by government agencies are charged to the consolidated statement of profit or loss as and when they are incurred.

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. 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.

FOREIGN CURRENCIES

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES (CONTINUED)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

JUDGEMENTS

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

REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(a) Identifying performance obligation under contracts which have bundled sales of the License and research and development services

The Group have certain contracts which provide the License together with research and development service to a customer. The Group determined that both the License and research and development services are capable of being distinct. The Group also determined that the promises to transfer the License and provide research and development services are distinct within the context of the contract. The Group is not providing a significant integration service because the presence of the License and research and development services together in the contract does not result in any additional or combined functionality and neither the License nor the research and development modifies or customises the other. In addition, the License and research and development services are not highly interdependent or highly interrelated, because the Group would be able to transfer the License even if the customer declined research and development service and would be able to provide research and development service if other distributors have such request. Consequently, the Group has allocated a portion of the transaction price to the License and the research and development services based on relative standalone selling prices.

(b) Determining the timing of satisfaction of the License

The Group concluded that for the License which would be significantly affected by the activities undertaken by the Group, such as being the exclusive supplier of certain biopharmaceutical products related to the License, the customers get a right to access the License, the revenue is recognised overtime during the expected commercialisation period of the related biopharmaceutical products. The Group determined that the output method is the best method in measuring the progress of the License because there is a relationship between the Group's output and the transfer of the License to the customers. The Group recognises revenue on the basis of the output happened relative to the total expected output during the expected commercialisation period.

For the License which the customer gets a right to use the License, revenue for the License is recognised at the point of time when the control of the License is transferred to the customer and the customer is able to consume and benefit from the License.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

JUDGEMENTS *(CONTINUED)*

REVENUE FROM CONTRACTS WITH CUSTOMERS *(CONTINUED)*

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

The Group concluded that in some contracts, revenue for research and development services is to be 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 services 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., actual 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 expected cost to complete the services.

The Group also concluded that in some other contracts, revenue for research and development services is to be recognised at a point of time, because the customers cannot control the service or consume the benefit and have no enforceable obligation to pay for the service provided to date.

(d) Determining the method to estimate variable consideration

Certain contracts include variable consideration based on the future events. 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.

Given that the payments of certain variable consideration are not within the control of the Group, such as regulatory approvals, relevant consideration is not considered until relevant approvals are obtained. The Group determines that the most likely amount method is the appropriate method to estimate the variable consideration. When it is highly probable that the income corresponding to the relevant consideration will not be significantly reversed, the uncertainty of the variable consideration is eliminated and the variable consideration will be included in the transaction price. At the end of each reporting period, the Group will re-evaluate the probability of the payment of the variable consideration, and if necessary, adjust the estimation of the overall transaction price.

SIGNIFICANT JUDGEMENT IN DETERMINING THE LEASE TERM OF CONTRACTS

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by a highly possible renewal action which is reasonably certain to be exercised.

The Group has a high possibility to renew the periods under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to renew. That is, it considers all relevant factors that create an economic incentive for it to renew. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to renew (or not to renew) the periods of existing leases (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of plant and laboratories due to the significance of these assets to its operations. These leases have a short and non-cancellable period and there will be a significant negative effect on operation or production if a replacement is not readily available.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

ESTIMATION UNCERTAINTY

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

PROVISION FOR EXPECTED CREDIT LOSSES ON RECEIVABLES

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements.

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).

NET REALISABLE VALUE OF INVENTORIES

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and sale. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customers' needs and prices change when the products' expiration date is approaching. Management reassesses these estimates at the end of the reporting period.

STANDALONE SELLING PRICES OF THE LICENSE AND THE RESEARCH AND DEVELOPMENT SERVICES

The Group has certain contracts which provide the License together with research and development services to customers. As part of the accounting for these arrangements, the Group will develop assumptions that require estimation to determine the stand-alone selling price for each performance obligation identified in the contract. In developing the stand-alone selling price for a performance obligation, the Group considers the fair value of each performance obligation, and the fair value is determined using the valuation techniques (expected cost plus a margin approach or income approach) that are appropriate in the circumstances and for which sufficient data are available to measure fair value, the key assumptions include the discount rates, royalty rates and the cost mark-up rates. The consideration allocated to each performance obligation is limited to the consideration that is not constrained.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**ESTIMATION UNCERTAINTY (CONTINUED)****USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT**

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

USEFUL LIVES OF INTANGIBLE ASSETS

The Group reviews the useful life of intangible assets at least at the end of each year. If there is evidence that the useful life of intangible assets is different from the previous estimate, the amortisation period of intangible assets with limited useful lives will be changed. For intangible assets with uncertain service life, if there is evidence that its service life is limited, it shall be amortised according to a reasonable method. The difference between the actual result and the original estimate will affect the book value of intangible assets and the provision for impairment of intangible assets in the current and subsequent periods when the estimate is changed.

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets and deferred development costs 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. For the year ended 31 December 2021, impairment losses on deferred development costs in the amount of RMB28,848,000 have been recognised in profit or loss as set out in note 7 to the financial statements.

DEFERRED TAX ASSETS

Deferred tax assets are recognised for deductible temporary differences, and the carryforward of unused tax credits and unused tax losses 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. 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. Further details are contained in note 28 to the financial statements.

DEFERRED DEVELOPMENT COSTS

Deferred development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. In determining the amounts to be capitalised, management makes assumptions with regard to future economic benefits generated from the assets, discount rates to be applied and the expected period of benefits. Further details are contained in note 15 to the financial statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS DETERMINED USING VALUATION TECHNIQUES

The fair value of financial instruments, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk and terms associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in note 39 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

4. OPERATING SEGMENT INFORMATION

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

GEOGRAPHICAL INFORMATION

(A) REVENUE FROM EXTERNAL CUSTOMERS

	2022 RMB'000	2021 RMB'000
Mainland China	2,840,567	1,515,645
Asia Pacific (excluding Mainland China)	178,971	57,286
North America	145,056	—
Europe	50,136	109,541
	3,214,730	1,682,472

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

(B) NON-CURRENT ASSETS

	2022 RMB'000	2021 RMB'000
Mainland China	6,600,293	5,430,594
Overseas	132,473	95,091
	6,732,766	5,525,685

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customers amounting to over 10% to the total revenue of the Group in the reporting period is as follows:

	2022 RMB'000
Customer A	1,000,670
Customer B	582,908
	1,583,578

	2021 RMB'000
Customer A	534,538
Customer B	458,237
	992,775

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

5. REVENUE

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	3,212,800	1,682,472
Revenue from other sources		
Gross rental income from operating leases	1,930	—
	3,214,730	1,682,472

REVENUE FROM CONTRACTS WITH CUSTOMERS

(A) REVENUE INFORMATION

	2022 RMB'000	2021 RMB'000
Types of goods or service		
Sales of biopharmaceutical products	2,675,372	1,494,639
Research and development services	325,484	112,873
The license	211,016	74,222
Others	928	738
Total revenue from contracts with customers	3,212,800	1,682,472
Timing of revenue recognition		
Transferred at a point in time	2,899,468	1,495,377
Transferred over time	313,332	187,095
Total revenue from contracts with customers	3,212,800	1,682,472

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:

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
The license	182,366	14,545
Research and development services	24,375	107,387
	206,741	121,932

There is no revenue recognised from performance obligations satisfied in previous periods.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

5. REVENUE (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(B) PERFORMANCE OBLIGATIONS

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

Sale of biopharmaceutical products

The performance obligation is satisfied upon receipt of the products and payment is generally due within 90 days from the received date.

The license

The performance obligation of commercialisation licenses is generally satisfied overtime during the expected commercialisation period after the Group obtains the commercialisation authorisation from the local authorities and payment in advance is normally required. The performance obligation of intellectual property licenses is satisfied at a point in time and payment is billed based on the milestone achieved.

Research and development services

Based on the terms of the contracts, the performance obligation is generally satisfied over time as services are rendered or at the point in time as the services are completed and accepted and payment is billed based on the milestone achieved.

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

	2022 RMB'000	2021 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	469,966	232,700
After one year	726,156	804,982
	1,196,122	1,037,682

The remaining performance obligations expected to be recognised after one year mainly relate to the transaction prices allocated to the License and research and development services. The revenue from the License is expected to be recognised during the future estimated commercialisation period. The revenue from research and development services is expected to be recognised during the period in which the services are being rendered. The amounts disclosed above do not include variable consideration.

6. OTHER INCOME AND GAINS

	2022 RMB'000	2021 RMB'000
Interest income	3,571	2,686
Exchange gains	32,919	—
Government grants	69,043	41,896
Others	19	509
	105,552	45,091

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

7. LOSS BEFORE TAX

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

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		504,504	396,900
Cost of services provided		340,117	125,848
Depreciation of property, plant and equipment*		113,828	83,976
Depreciation of right-of-use assets*		64,520	49,607
Amortisation of intangible assets*		99,255	66,593
Research and development expenses:			
Current year expenditure		1,394,514	1,023,930
Lease payments not included in the measurement of lease liabilities	16(c)	5,594	5,093
Listing expenses		—	159
Auditor's remuneration		3,350	2,800
Employee benefit expense (including directors' and chief executive's remuneration (note 9)):			
Wages and salaries		1,127,336	709,686
Staff welfare expenses		227,120	144,419
Share-based payment expense*	32	12,517	48,417
Foreign exchange (gain)/loss		(32,919)	16,662
Impairment of financial assets, net:			
Impairment of trade receivables, net	19	1,638	174
Impairment of deferred development costs, net	15	—	28,848
Write-down of inventories to net realisable value		24,669	7,566
Loss on fair value adjustment of financial assets at fair value through profit or loss **	20	199,153	—
Provision for the contract loss	20	—	191,271
Bank interest income	6	(3,571)	(2,686)
Loss on disposal of items of property, plant and equipment		248	932

* The depreciation of property, plant and equipment, the depreciation of right-of-use assets, the amortisation of intangible assets and the share-based payment expense for the year are included in "Cost of sales", "Research and development expenses", "Selling and distribution expenses" and "Administrative expenses" in the consolidated statement of profit or loss.

** Represented the fair value loss on the financial assets through profit or loss amounted to RMB390,424,000, net off a provision of RMB191,271,000 charged to other expenses in the consolidated statement of profit or loss for the year ended 31 December 2021. Please refer to note 20 for details.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest expense on bank and other borrowings	115,886	78,505
Interest expense on lease liabilities (note 16(b))	14,910	16,649
Less: Interest capitalised (note 14)	(25,124)	(10,334)
	105,672	84,820

9. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' REMUNERATION

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

	2022 RMB'000	2021 RMB'000
Fees	1,032	996
Other emoluments:		
Salaries, allowances and benefits in kind	9,954	6,967
Performance-related bonuses	1,380	1,154
Pension scheme contributions	—	—
Share award scheme	5,083	20,962
	17,449	30,079

During the year and in prior years, certain directors and supervisors were granted to restricted shares in respect of their services to the Group, further details of which are set out in note 32 to the financial statements. The fair value of these restricted shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the directors', supervisors' and chief executives' remuneration disclosures below.

There were no emoluments paid by the Group to the directors as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office during the year.

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to independent non-executive directors during the year were as follows:

	2022 RMB'000	2021 RMB'000
Dr. Lik Yuen Chan	258	249
Mr. Tak Young So	258	249
Dr. Ruilin Song	258	249
Dr. Guoping Zhao	258	249
	1,032	996

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

9. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVES

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance- related bonuses RMB'000	Pension scheme contributions RMB'000	Share award scheme RMB'000	Total remuneration RMB'000
2022						
<i>Executive director</i>						
Mr. Wenjie Zhang	—	—	—	—	—	—
	—	—	—	—	—	—
<i>Non-executive directors</i>						
Mr. Qiyu Chen	—	—	—	—	—	—
Mr. Yifang Wu	—	—	—	—	—	—
Dr. Aimin Hui ⁽¹⁾	—	—	—	—	—	—
Ms. Xiaohui Guan	—	—	—	—	—	—
Mr. Zihou Yan	—	—	—	—	—	—
Mr. Deyong Wen ⁽²⁾	—	—	—	—	—	—
	—	—	—	—	—	—
<i>Supervisors</i>						
Ms. Rongli Feng	—	—	—	—	—	—
Mr. Deli Kong	—	—	—	—	—	—
Ms. Junhong Liu ⁽³⁾	—	1,176	420	—	—	1,596
	—	1,176	420	—	—	1,596
<i>Chief executive</i>						
Mr. Wenjie Zhang	—	8,778	960	—	5,083	14,821
	—	8,778	960	—	5,083	14,821
	—	9,954	1,380	—	5,083	16,417

(1) Dr. Aimin Hui resigned as a non-executive director of the Company in July 2022.

(2) Mr. Deyong Wen ("Mr. Wen") was appointed as a non-executive director in July 2022.

(3) Ms. Junhong Liu resigned as a Supervisor on 31 December 2022.

There was no arrangement under which a director, a supervisor or the chief executive waived or agreed to waive any remuneration during the year (2021:Nil).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

9. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVES (CONTINUED)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance- related bonuses RMB'000	Pension scheme contributions RMB'000	Share award scheme RMB'000	Total remuneration RMB'000
2021						
<i>Executive director</i>						
Mr. Wenjie Zhang ⁽¹⁾	—	—	—	—	—	—
	—	—	—	—	—	—
<i>Non-executive directors</i>						
Mr. Qiyu Chen ⁽²⁾	—	—	—	—	—	—
Mr. Yifang Wu	—	—	—	—	—	—
Dr. Aimin Hui	—	—	—	—	—	—
Ms. Xiaohui Guan	—	—	—	—	—	—
Mr. Zihou Yan	—	—	—	—	—	—
	—	—	—	—	—	—
<i>Supervisors</i>						
Ms. Rongli Feng	—	—	—	—	—	—
Mr. Deli Kong	—	—	—	—	—	—
Ms. Junhong Liu	—	847	194	—	—	1,041
	—	847	194	—	—	1,041
<i>Chief executive</i>						
Mr. Wenjie Zhang ⁽¹⁾	—	6,120	960	—	20,962	28,042
	—	6,120	960	—	20,962	28,042
	—	6,967	1,154	—	20,962	29,083

(1) Mr. Wenjie Zhang ("Mr. Zhang"), the executive director and Chief Executive Officer of the Company, has been elected as the Chairman of the Board, a member and the chairman of the Nomination Committee and chairman of the Strategy Committee with effect from 30 November 2021; Mr. Zhang resigned as the President of the Company with effect from 30 November 2021.

(2) Mr. Qiyu Chen ("Mr. Chen") resigned as the Chairman of the Board, a member and the chairman of the Nomination Committee and the chairman of the Strategy Committee with effect from 30 November 2021. Mr. Chen will continue to act as a non-executive director and a member of the Strategy Committee of the Company.

There was no arrangement under which a director, a supervisor or the chief executive waived or agreed to waive any remuneration during the year (2020:Nil).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director who is also the chief executive (2021: one), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining four (2021: four) highest paid employees who are neither a director, supervisor nor chief executive of the Company are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	19,703	11,277
Performance-related bonuses	5,281	3,767
Pension scheme contributions	—	—
Share award scheme	4,127	14,020
	29,111	29,064

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

	Number of employees	
	2022 RMB'000	2021 RMB'000
Nil to RMB1,000,000	—	—
RMB5,000,001 to RMB5,500,000	1	1
RMB5,500,001 to RMB6,000,000	1	—
RMB6,000,001 to RMB6,500,000	—	1
RMB7,500,001 to RMB8,000,000	1	—
RMB8,000,001 to RMB8,500,000	—	1
RMB9,000,001 to RMB9,500,000	—	1
RMB10,000,001 to RMB10,500,000	1	—
	4	4

During the year and in prior years, restricted shares were granted to certain non-director, non-supervisor and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such restricted shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, non-supervisor and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

11. INCOME TAX

The provision for Chinese Mainland current income tax is based on the statutory rate of 25% (2021: 25%) of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain group entities in Chinese Mainland, which are taxed at a preferential rate of 15%.

Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates. The provision for current income tax of Hengenix incorporated in the United State and Henlius Industrial incorporated in Hong Kong in the year of 2022, is based on the statutory rates of 29.84% and 8.25%, respectively (2021: 29.84%, 8.25% respectively).

	2022 RMB'000	2021 RMB'000
Current – Mainland China	1,372	27,313
Total tax charged for the year	1,372	27,313

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Year ended 31 December 2022

	Chinese Mainland RMB'000	Other countries and regions RMB'000	Total RMB'000
Loss before tax	(553,145)	(140,742)	(693,887)
Tax at the statutory tax rate	(138,286)	(41,690)	(179,976)
Lower tax rate for a specific entity	36,816	—	36,816
Withholding income tax paid	1,372	—	1,372
Expenses not deductible for tax	16,454	5	16,459
Additional deductible allowance for R&D expenses	(134,832)	—	(134,832)
Utilisation of the unrecognised tax losses	(23,513)	(82)	(23,595)
Deductible temporary differences and tax losses not recognised	243,361	41,767	285,128
Tax charge at the effective rate	1,372	—	1,372

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

11. INCOME TAX *(CONTINUED)*

Year ended 31 December 2021

	Chinese Mainland RMB'000	Other countries and regions RMB'000	Total RMB'000
Loss before tax	(846,780)	(109,959)	(956,739)
Tax at the statutory tax rate	(211,695)	(31,553)	(243,248)
Lower tax rate for a specific entity	74,359	—	74,359
Withholding income tax paid	27,313	—	27,313
Expenses not deductible for tax	5,118	4	5,122
Additional deductible allowance for R&D expenses	(75,548)	—	(75,548)
Utilisation of the unrecognised tax losses	(69,523)	—	(69,523)
Deductible temporary differences and tax losses not recognised	277,289	31,549	308,838
Tax charge at the effective rate	27,313	—	27,313

12. DIVIDENDS

No dividends have been paid or declared by the Company during the reporting period.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 542,021,455 (2021: 538,836,373) in issue during the year.

The calculation of the diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2022 RMB'000	2021 RMB'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	(695,259)	(984,052)
	Number of shares 2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	542,021,455	538,836,373
Effect of dilution – weighted average number of ordinary shares: Restricted shares under share award scheme	—	—
Weighted average number of ordinary shares in issue during the year in the diluted loss per share calculation	542,021,455	538,836,373

Because the diluted loss per share amount is decreased when taking restricted shares issued under the share award scheme into account, which had been disclosed in note 32 to the financial statements, the restricted shares had an anti-dilutive effect on the basic loss per share amount for the year and were ignored in the calculation of diluted loss per share.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Electronic equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022:							
Cost	784,364	954	902	73,207	295,254	399,685	1,554,366
Accumulated depreciation	(205,075)	(370)	(668)	(28,638)	(90,730)	—	(325,481)
Net carrying amount	579,289	584	234	44,569	204,524	399,685	1,228,885
At 1 January 2022, net of accumulated depreciation	579,289	584	234	44,569	204,524	399,685	1,228,885
Additions	45,116	—	—	29,142	13,754	624,228	712,240
Disposals	(290)	—	(4)	(539)	—	—	(833)
Depreciation provided during the year	(79,530)	(126)	(73)	(14,202)	(32,660)	—	(126,591)
Transfers	21,395	—	—	—	—	(21,395)	—
Exchange rate fluctuation	—	—	—	2,031	1,717	—	3,748
At 31 December 2022, net of accumulated depreciation	565,980	458	157	61,001	187,335	1,002,518	1,817,449
At 31 December 2022:							
Cost	850,063	954	829	104,530	311,051	1,002,518	2,269,945
Accumulated depreciation	(284,083)	(496)	(672)	(43,529)	(123,716)	—	(452,496)
Net carrying amount	565,980	458	157	61,001	187,335	1,002,518	1,817,449

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Electronic equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021:							
Cost	622,761	4,029	909	58,601	245,700	283,609	1,215,609
Accumulated depreciation	(147,330)	(2,552)	(574)	(19,036)	(61,208)	—	(230,700)
Net carrying amount	475,431	1,477	335	39,565	184,492	283,609	984,909
At 1 January 2021, net of accumulated depreciation	475,431	1,477	335	39,565	184,492	283,609	984,909
Additions	55,745	378	—	14,096	45,706	250,773	366,698
Disposals	(7,260)	(1,077)	(1)	(109)	(3,603)	—	(12,050)
Depreciation provided during the year	(68,580)	(187)	(100)	(10,948)	(29,837)	—	(109,652)
Transfers	124,000	—	—	2,438	8,259	(134,697)	—
Exchange rate fluctuation	(47)	(7)	—	(473)	(493)	—	(1,020)
At 31 December 2021, net of accumulated depreciation	579,289	584	234	44,569	204,524	399,685	1,228,885
At 31 December 2021:							
Cost	784,364	954	902	73,207	295,254	399,685	1,554,366
Accumulated depreciation	(205,075)	(370)	(668)	(28,638)	(90,730)	—	(325,481)
Net carrying amount	579,289	584	234	44,569	204,524	399,685	1,228,885

As at 31 December 2022, the carrying amounts of construction in progress of the Group included capitalised interest of approximately RMB38,102,000 (31 December 2021: RMB12,978,000).

As at 31 December 2022, the Group's construction in progress with a carrying amount of RMB664,852,000 (2021: RMB364,084,000) was pledged as security for the Group's interest-bearing bank and other borrowings, as further detailed in note 26 to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

15. INTANGIBLE ASSETS

	Non-patent technologies RMB'000	Office software RMB'000	Deferred development costs RMB'000	Medicine license RMB'000	Total RMB'000
31 December 2022					
Cost at 1 January 2022, net of accumulated amortisation	48,921	28,961	1,715,588	1,841,461	3,634,931
Additions	—	11,473	788,688	—	800,161
Disposals	—	—	—	(3,433)	(3,433)
Impairments	—	—	—	—	—
Transfers	—	—	(875,124)	875,124	—
Amortisation during the year	—	(4,483)	—	(94,903)	(99,386)
Exchange rate fluctuation	—	10	—	—	10
At 31 December 2022:	48,921	35,961	1,629,152	2,618,249	4,332,283
At 31 December 2022					
Cost	48,921	49,327	1,658,000	2,827,641	4,583,889
Accumulated amortisation	—	(13,366)	—	(209,392)	(222,758)
Accumulated impairment	—	—	(28,848)	—	(28,848)
Net carrying amount	48,921	35,961	1,629,152	2,618,249	4,332,283
31 December 2021					
Cost at 1 January 2021, net of accumulated amortisation	48,921	22,448	1,468,760	1,402,325	2,942,454
Additions	—	10,134	772,897	11,312	794,343
Disposals	—	—	(4,256)	—	(4,256)
Impairments	—	—	(28,848)	—	(28,848)
Transfers	—	—	(492,965)	492,965	—
Amortisation during the year	—	(3,617)	—	(65,141)	(68,758)
Exchange rate fluctuation	—	(4)	—	—	(4)
At 31 December 2021:	48,921	28,961	1,715,588	1,841,461	3,634,931
At 31 December 2021					
Cost	48,921	37,844	1,744,436	1,955,950	3,787,151
Accumulated amortisation	—	(8,883)	—	(114,489)	(123,372)
Accumulated impairment	—	—	(28,848)	—	(28,848)
Net carrying amount	48,921	28,961	1,715,588	1,841,461	3,634,931

The intangible assets of the Group with indefinite life are non-patent technologies, which have indefinite life as the extension cost is low and these assets can be used indefinitely. In addition, the intangible assets of the Group also include the deferred development costs which are the expenditure incurred in the development phase of each project. Management tests the non-patent technologies with indefinite useful life and the deferred development costs which were not yet available for use for impairment annually by comparing their carrying amounts with their recoverable amounts.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

15. INTANGIBLE ASSETS (CONTINUED)

NON-PATENT TECHNOLOGIES

The recoverable amounts of the non-patent technologies were determined based on the fair value less costs of disposal, and the fair values of non-patent technologies were determined using the relief from the royalty method taking into account the nature of the asset, using cash flow projections based on financial budget approved by the management, and the growth rate used to extrapolate the cash flows beyond the financial budget period is 2.3% (2021: 3%), which is close to the long-term inflation rate. The fair value measurement hierarchy of the non-patent technologies was level 3. Other key assumptions to the valuation model used are listed as follows:

	31 December 2022	31 December 2021
Discount rates	16.00%	16.00%
Royalty rates	5.00%	5.00%

Discount rates – The discount rates used reflect specific risks relating to non-patent technologies.

Royalty rates – The basis used to determine the value assigned to royalty rates is the royalty rate of the market where non-patent technologies are located, taking into account the profitability of the Group and other qualitative factors.

DEFERRED DEVELOPMENT COSTS

The recoverable amounts of the deferred development costs were determined based on the fair value less costs of disposal, and the fair value of the deferred development costs was determined using the multi-period excess earnings method taking into account the nature of the assets, using cash flow projections based on financial budget approved by the management, covering the economic life of corresponding biopharmaceutical products.

Impairment provision of RMB28,848,000 was provided for the deferred development costs based on specific review of fair values less costs of disposal of the assets as at 31 December 2021.

The fair value measurement hierarchy of the remaining deferred development costs was level 3. Other key assumptions to the valuation model used are listed as follows:

	31 December 2022	31 December 2021
Discount rates	16.00%-17.00%	16.00%-17.00%
Contributory asset charges	2.83%-4.57%	2.09%-3.73%

Discount rates – The discount rates used reflect specific risks relating to deferred development costs.

Contributory asset charges – The basis used to determine the value assigned to contributory asset charges is the return of revenue ("ROR") of the contributory assets, the ROR was determined according to the borrowing rate and cost of equity, and the contributory assets mainly included working capital, tangible assets and assembled workforce.

With regard to the assessment of fair value, management believes that no reasonably possible changes in any of the key assumptions would cause the recoverable amounts of non-patent technologies and deferred development costs to be materially lower than their carrying amounts.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

16. LEASES

THE GROUP AS A LESSEE

The Group has lease contracts for various items of plant and machinery and other equipment 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 plant and machinery generally have lease terms between 2 and 10 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. 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:

31 December 2022

	Land RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2022	201,070	237,131	438,201
Additions	—	48,377	48,377
Depreciation charge	(4,233)	(74,936)	(79,169)
Exchange rate fluctuation	—	5,013	5,013
As at 31 December 2022	196,837	215,585	412,422

31 December 2021

	Land RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2021	205,303	246,976	452,279
Additions	—	53,121	53,121
Depreciation charge	(4,233)	(61,531)	(65,764)
Exchange rate fluctuation	—	(1,435)	(1,435)
As at 31 December 2021	201,070	237,131	438,201

At 31 December 2022, the Group's right-of-use assets with a carrying amount of RMB196,837,000 (2021: RMB201,070,000) were pledged as security for the Group's interest-bearing bank and other borrowings, as further detailed in note 26 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

16. LEASES (CONTINUED)

THE GROUP AS A LESSEE (CONTINUED)

(B) LEASE LIABILITIES

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the years are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	292,750	292,975
New leases	48,377	53,121
Accretion of interest recognised during the year	14,910	16,649
Payments	(100,795)	(68,390)
Exchange rate fluctuation	5,850	(1,605)
Carrying amount at 31 December	261,092	292,750
Analysed into:		
Current portion	81,445	74,187
Non-current portion	179,647	218,563

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

(C) THE AMOUNTS RECOGNISED IN PROFIT OR LOSS IN RELATION TO LEASES ARE AS FOLLOWS:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	14,910	16,649
Depreciation charge of right-of-use assets	64,520	49,607
Expense relating to short-term leases and leases of low-value assets	5,594	5,093
Total amount recognised in profit or loss	85,024	71,349

(D) THE TOTAL CASH OUTFLOW FOR LEASES AND FUTURE CASH OUTFLOWS RELATING TO LEASES THAT HAVE NOT YET COMMENCED ARE DISCLOSED IN NOTES 33(c) AND 35(b), RESPECTIVELY, TO THE FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

17. OTHER NON-CURRENT ASSETS

	2022 RMB'000	2021 RMB'000
Prepayment for non-current assets	170,612	223,668

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	390,161	229,984
Work in progress	247,985	126,196
Finished goods	149,907	72,686
Provision	(30,741)	(8,754)
	757,312	420,112

19. TRADE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	462,607	301,201
Impairment	(7,098)	(5,460)
	455,509	295,741

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

At 31 December 2022, the amount of Group's trade receivables pledged as security for the Group's interest-bearing bank and other borrowings was nil (2021: RMB69,444,000). The further detailed disclosure was in note 26 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

19. TRADE RECEIVABLES (CONTINUED)

An ageing analysis of the trade receivables as at the end of each reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 RMB'000	2021 RMB'000
Within 3 months	373,226	295,741
3-6 months	114	—
6-12 months	20,877	—
1-2 years	61,292	—
	455,509	295,741

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 RMB'000	2021 RMB'000
At the beginning of year	5,460	5,286
Impairment losses, net	1,638	174
At the end of year	7,098	5,460

For the trade receivables generated from the sales of pharmaceutical products, to which the customers have similar loss patterns, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due, and 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.

The expected loss rate for the trade receivables generated from the sales of pharmaceutical products that are not past due is assessed to be 0.5%, while the expected loss rate for those that are past due is assessed to be 10% to 100% based on the time of past due. As at 31 December 2022, the Group's overdue trade receivable generated from the sales of pharmaceutical products was immaterial, and the Directors are of the opinion that the ECL in respect of these balances is sufficient.

For the trade receivables which are not generated from the sales of pharmaceutical products, to which the customers do not have similar loss patterns (i.e., by geographical region, sales type, customer type), an impairment analysis is performed at each reporting date separately for each customer. As at 31 December 2022, the Group's loss allowance was RMB4,300,000 (2021: RMB4,300,000).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Unlisted investment, at fair value	160,186	—

On 25 September 2019, the Company entered into an investment management agreement (the “IMA”) with AMTD Global Markets Limited (“AMTD”). Pursuant to the IMA, the Company deposited a total amount of USD117,000,000 into the investment portfolio account with AMTD (the “AMTD Account”) and engaged AMTD to provide investment management services.

During the years ended 31 December 2020 and 2021, the Company redeemed in total of USD30,640,000 from AMTD and a provision for expected loss of USD30,000,000 (equivalent to RMB191,271,000) was provided based on the Company's best estimate, with the assistance of an external legal counsel, in the year ended 31 December 2021. As at 31 December 2021, the outstanding balance in the AMTD Account amounted to USD86,360,000 (equivalent to RMB550,610,000) was recorded in restricted cash and bank balances and the provision was recorded in other payables and accruals.

During the year ended 31 December 2022, the Company entered into notes purchase agreements to purchase promissory notes issued by three private entities (collectively, the “Notes”) with the total principal amounts of USD86,360,000 (equivalent to RMB550,610,000) through the AMTD Account, which was recorded in financial assets at fair value through profit or loss. In February 2023, the Company redeemed the amount of USD20,000,000 from AMTD.

The Company has engaged an independent valuer to assess the fair value of the Notes and concluded that the fair value of the Notes as at 31 December 2022 was USD23,000,000 (equivalent to RMB160,186,000) giving rise to a total fair value loss of RMB390,424,000. As a loss of RMB191,271,000 relating to the AMTD Account had already been recognised for the year ended 31 December 2021, an additional fair value loss of arising from the AMTD Account amounted to RMB199,153,000 was recognised in other expenses for the year ended 31 December 2022.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Prepayments	54,543	55,536
Value added tax to be deducted and certified	52,119	133,452
Deposits and other receivables	31,395	34,985
	138,057	223,973

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 2022 and 2021, the loss allowance was assessed to minimal.

As at 31 December 2022, the amount of the Group's other receivables pledged as security for the Group's interest-bearing bank and other borrowings was nil (2021: RMB8,296,000). The further detailed disclosure was in note 26 to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

22. CASH AND BANK BALANCES

	2022 RMB'000	2021 RMB'000
Cash on hand	1	1
Bank balances	680,477	707,332
Cash and bank balances	680,478	707,333
Less: Pledged for letter of credit	(7,002)	(1,741)
Restricted cash for investments	—	(550,610)
	(7,002)	(552,351)
Cash and cash equivalents	673,476	154,982

The Group's cash and bank balances as at the end of each reporting period are denominated in the following currencies:

	2022 RMB'000	2021 RMB'000
Denominated in RMB	552,890	116,978
Denominated in USD	115,725	580,571
Denominated in EUR	385	217
Denominated in HKD	7,060	7,297
Denominated in NTD	4,418	2,270
	680,478	707,333

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances and restricted cash for investment are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

23. TRADE PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	713,552	383,470

Trade payables are non-interest-bearing and are normally settled on terms of three to six months.

An ageing analysis of the trade payables as at the end of each reporting period based on the invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	713,104	383,470
1 to 2 years	448	—
	713,552	383,470

24. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Repurchase obligation of restricted shares under share award scheme (note 32)		7,306	32,917
Other payables	(i)	575,610	185,262
Payroll and welfare payables		454,523	271,379
Accruals		378,206	146,401
Provision for the contract loss (note 20)		—	191,271
Other current liabilities		7,022	18,410
Other taxes payables		20,784	21,638
		1,443,451	867,278

Note:

- (i) Other payables mainly represent the payables related to the purchase of property, plant and equipment, the deposits received and refundable prepayment in advance.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

25. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2022 and 31 December 2021 are as follows:

	2022 RMB'000	2021 RMB'000
<i>Short-term advances received from customers</i>		
Sales of goods	70,170	50,964
License and research and development services	252,250	87,339
	322,420	138,303
<i>Long-term advances received from customers</i>		
License and research and development services	645,594	653,934
	645,594	653,934
	968,014	792,237

Contract liabilities include long-term and short-term advances received to grant customers the Group's certain biopharmaceutical products and provide the research and development services.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2022			31 December 2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities (note 16)	3.98-6.28	2023	81,445	4.50-6.28	2022	74,187
Bank borrowings – unsecured	3.20-5.12	2023	1,839,095	0.64-4.35	2022	1,350,845
Current portion of long-term bank borrowings – secured (Note (a))	3.78	2023	40,000	4.50	2022	36,165
Current portion of long-term bank borrowings – unsecured	3.65-4.65	2023	561,615	3.95-4.65	2022	107,635
Current portion of long-term other borrowings – unsecured	—	—	—	0.88	2022	1,842
			2,522,155			1,570,674
Non-current						
Lease liabilities (note 16)	3.98-6.28	2024-2030	179,647	4.50-6.28	2023-2029	218,563
Bank borrowings – secured (Note (a))	3.78	2024-2030	943,626	3.98-4.50	2023-2030	529,018
Bank borrowings – unsecured	4.45-4.50	2024-2025	31,667	4.05-4.65	2023-2024	304,682
			1,154,940			1,052,263
			3,677,095			2,622,937

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2022 RMB'000	2021 RMB'000
Analysed into:		
Bank borrowings and other borrowings repayable:		
Within one year	2,440,710	1,496,487
In the second year	90,000	254,416
In the third to fifth years, inclusive	623,476	70,266
Beyond five years	261,817	509,018
	3,416,003	2,330,187
Lease liabilities:		
Within one year	81,445	74,187
In the second year	65,864	64,374
In the third to fifth years, inclusive	80,661	107,690
Beyond five years	33,122	46,499
	261,092	292,750

Notes:

- (a) Certain of the Group's bank borrowings are secured by:
- (i) the pledge of certain of the Group's trade receivables amounting to nil (2021: RMB69,444,000);
 - (ii) the pledge of certain of the Group's other receivables amounting to nil (2021: RMB8,296,000);
 - (iii) mortgages over the Group's right-of-use assets, which had a net carrying value at the end of the reporting period of RMB196,837,000 (2021: RMB201,070,000); and
 - (iv) mortgages over the Group's property, plant and equipment that had a net carrying value at the end of the reporting period of RMB664,852,000 (2021: RMB364,084,000).
- (b) Except for certain of the Group's bank borrowings bearing interest at 5.12% amounting to USD10,000,000 (2021: interest at rates ranging from 0.64% to 1.34% amounting to USD16,100,000 and the 0.88% unsecured other borrowings amounting to NTD8,000,000, respectively), all borrowings are in RMB.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

27. OTHER LONG-TERM PAYABLES

	2022 RMB'000	2021 RMB'000
Payables relating to the license out contract (Note)	235,849	—
Payroll and welfare payables	39,492	54,425
Other taxes payables	17,029	—
	292,370	54,425

Note: On 17 November 2022, the Company entered into a license agreement with Fosun Pharmaceutical Industrial Development, a fellow subsidiary of the Company, to grant Fosun Pharmaceutical Industrial Development an exclusive license to commercialise HANSIZHUANG in the United States (including its territories and possessions) for the treatment indication of Extensive Stage Small-Cell Lung Cancer (ESSCLC) and any other indication (other than ES-SCLC) as mutually agreed between the Company and Fosun Pharmaceutical Industrial Development in human. The contract was approved by the extraordinary general meeting on 27 December 2022. As at 31 December 2022, the Company received an amount of RMB250,000,000 relating to the license out contract.

28. DEFERRED TAX

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for years and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2022 RMB'000	2021 RMB'000
Tax losses	3,919,645	2,827,883
Deductible temporary difference	2,889,053	2,420,577
	6,808,698	5,248,460

The unused tax losses expire as follows:

	2022 RMB'000	2021 RMB'000
Less than five years	653,625	313,419
Beyond five years	2,978,591	2,292,632
Without limitation	287,429	221,832
	3,919,645	2,827,883

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

29. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
Government grants	193,494	155,741

Various government grants have been received from local government authorities for setting up research and development activities. Some government grants received that did not meet the fulfilled conditions were included in deferred income. These grants are recognised as income over the periods necessary to match the grants on a systematic basis to the costs that they are intended to compensate. The movements in government grants of the Group during the reporting period are as follows:

	2022 RMB'000	2021 RMB'000
At the beginning of the year	155,741	94,895
Received during the year	50,140	95,482
Recognised as income during the year	(12,387)	(34,636)
At the end of the year	193,494	155,741

30. SHARE CAPITAL

SHARES

	2022 RMB'000	2021 RMB'000
Issue and fully paid: 543,494,853 (2021: 543,494,853) ordinary shares	543,495	543,495

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2021, 31 December 2021 and 31 December 2022	543,494,853	543,495

31. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity of the Group.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

32. SHARE AWARD SCHEME

2018 SHARE AWARD SCHEME AND AMENDMENTS TO THE 2018 SHARE AWARD SCHEME

The Group adopted a share award scheme (the “2018 Share Award Scheme”) for the purpose of motivating the directors and key personnel of the Group to promote success of the business. The 2018 Share Award Scheme was approved by the Directors and became effective on 14 April 2018.

On 14 April 2018 (the “Date of Grant of the 2018 Share Award Scheme”), pursuant to the 2018 Share Award Scheme, 22,750,000 ordinary shares of the Company were granted to 55 eligible participants of the 2018 Share Award Scheme at an exercise price of RMB9.21 per share. All the 22,750,000 ordinary shares held by the eligible participants shall be vested (or repurchased and cancelled by the Company) in three tranches upon the expiry of each vesting period. On 30 September 2018, the Company received the payment of the subscription price of RMB209,528,000 from the eligible participants, and the Company's share capital and share premium were then increased by RMB22,750,000 and RMB186,778,000, respectively. Meanwhile, the Company has recognised RMB209,528,000 as other payables and accruals and other reserve due to the restricted share repurchase obligation of the Company till the end of the vesting period. The eligible participants include the members of senior management of the Company and the core technical personnel of the Company and its subsidiaries. Details of the vesting date are summarised as follows:

Type of eligible participants	% of conditional shares	Vesting date	% of vested conditional shares
1	100%	30 April 2020	60%
		30 April 2021	20%
		30 April 2022	20%
2	100%	30 April 2020	35%
		30 April 2021	30%
		30 April 2022	35%
3	100%	30 April 2020	20%
		30 April 2021	25%
		30 April 2022	55%

As for the restricted shares, the conditions for releasing the restrictions comprised two parts, namely the Company achieving certain milestones in respect of its products and the participants passing annual performance review. The percentage of shares in respect of which the conditions may be released depends on the achievement of those conditions. In relation to the shares in respect of which the restrictions have been released, such shares cannot be transferred within one year after releasing the restrictions.

All of the eligible participants have accepted the granted shares by signing off the offer letters. The 2018 Share Award Scheme shall be valid from the date of grant of the shares to the date on which all the restricted shares granted have been vested or otherwise repurchased and cancelled.

32. SHARE AWARD SCHEME (CONTINUED)**2018 SHARE AWARD SCHEME AND AMENDMENTS TO THE 2018 SHARE AWARD SCHEME (CONTINUED)**

The aggregate fair value of the shares granted amounted to approximately RMB307,125,000 (RMB13.50 per share), and the fair value is determined by an external valuer using the discounted cash flow model taking into account the terms and conditions upon which the restricted shares were granted.

The following table lists the inputs to the valuation model used:

	14 April 2018
Discount rates (%)	16.14%
Long-term growth rate (%)	3.00%

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Long-term growth rate – The basis used to determine the value assigned to the long-term growth rate is the forecast price indices during the budget year from where the biopharmaceuticals are located.

During the year of 2020, in view of the business development of the Group and to provide an effective and sound incentive mechanism with reference to market practices, the Directors proposed to amend the terms of the 2018 Share Award Scheme (“Amendments to the 2018 Share Award Scheme”) which was approved by the Directors on 17 November 2020.

Pursuant to the Amendments to the 2018 Share Award Scheme, upon the resignation of the participants, the transfer restrictions of a certain percentage of the shares awarded under the 2018 Share Award Scheme will be released, if the participants have fulfilled the service period conditions and certain performance conditions.

The following restricted shares were outstanding under the 2018 Share Award Scheme and Amendments to the 2018 Share Award Scheme during the year:

	Number of shares
At 1 January 2021	3,941,487
Forfeited during the year	(156,050)
Vested during the year	(1,624,737)
At 31 December 2021 and 1 January 2022	2,160,700
Vested during the year	(2,080,900)
At 31 December 2022	79,800

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

32. SHARE AWARD SCHEME (CONTINUED)

2020 SHARE AWARD SCHEME

The Group adopted a share award scheme (the “2020 Share Award Scheme”) for the purpose of motivating the directors and key personnel of the Group to promote success of the business. The 2020 Share Award Scheme was approved by the Directors and became effective on 10 December 2020.

On 10 December 2020 (the “Date of Grant of the 2020 Share Award Scheme”), pursuant to the 2020 Share Award Scheme, 2,780,700 ordinary shares of the Company were granted to 12 eligible participants of the 2020 Share Award Scheme at an exercise price of RMB9.21 per share. All the 2,780,700 ordinary shares are derived from the vested restricted shares at the time of the resignation of the participants in the 2018 Share Award Scheme. All the 2,780,700 ordinary shares held by the eligible participants shall be vested (or repurchased and cancelled by the Company) in two tranches upon the expiry of each vesting period. The eligible participants include the members of senior management of the Company and the core technical personnel of the Company and its subsidiaries. Details of the vesting date are summarised as follows:

Type of eligible participants	% of conditional shares	Vesting date	% of vested conditional shares
1	100%	30 April 2021	60%
		30 April 2022	20%
		30 April 2023	20%
2	100%	30 April 2021	20%
		30 April 2022	25%
		30 April 2023	55%

As for restricted shares, the conditions for releasing the restrictions comprised two parts, namely the Company achieving certain milestones in respect of its products and the participants passing annual performance review. The percentage of shares in respect of which the restrictions may be released depends on the achievement of those conditions.

All of the eligible participants have accepted the granted shares by signing off the offer letters. The 2020 Share Award Scheme shall be valid from the date of grant of the shares to the date on which all the restricted shares granted have been vested or otherwise repurchased and cancelled.

The following restricted shares were outstanding under the 2020 Share Award Scheme during the year:

	Number of shares
At 1 January 2021	2,780,700
Forfeited during the year	(375,000)
Vested during the year	(1,257,420)
At 31 December 2021 and 1 January 2022	1,148,280
Forfeited during the year	(42,000)
Vested during the year	(473,640)
At 31 December 2022	632,640

The aggregate fair value of the 2020 shares granted amounted to approximately RMB63,636,000 (RMB22.88 per share), and the fair value is determined by the stock price on the date of grant of the 2020 Share Award Scheme.

32. SHARE AWARD SCHEME (CONTINUED)

2021 SHARE AWARD SCHEME

On 7 April 2021, 13 July 2021, 30 November 2021, pursuant to the 2020 Share Award Scheme, 531,050 ordinary shares of the Company were granted to 5 eligible participants at an exercise price of RMB9.21 per share. All the 531,050 ordinary shares are derived from the forfeited shares at the time of the resignation of the participants in the 2018 and 2020 Share Award Schemes. All the 531,050 ordinary shares held by the eligible participants shall be vested (or repurchased and cancelled by the Company) in two tranches upon the expiry of each vesting period. The eligible participants include the members of senior management of the Company and the core technical personnel of the Company and its subsidiaries. Details of the vesting date are summarised as follows:

Type of eligible participants	% of conditional shares	Vesting date	% of vested conditional shares
1	100%	30 April 2021	60%
		30 April 2022	20%
		30 April 2023	20%
2	100%	30 April 2021	20%
		30 April 2022	25%
		30 April 2023	55%

As for restricted shares, the conditions for releasing the restrictions comprised two parts, namely the Company achieving certain milestones in respect of its products and the participants passing annual performance review. The percentage of shares in respect of which the restrictions may be released depends on the achievement of those conditions.

All of the eligible participants have accepted the granted shares by signing off the offer letters. The Share Award Scheme shall be valid from the date of grant of the shares to the date on which all the restricted shares granted have been vested or otherwise repurchased and cancelled.

The following restricted shares were outstanding under the Share Award Scheme during the year:

	Number of shares
At 1 January 2021	—
Granted during the year	531,050
Vested during the year	(266,010)
At 31 December 2021	265,040
Vested during the year	(112,788)
At 31 December 2022	152,252

The aggregate fair value of the shares granted amounted to approximately RMB9,952,000 (131,550 shares with RMB25.18 per share, 89,500 shares with RMB20.39 per share, and 310,000 shares with RMB15.53 per share), and the fair value is determined by the stock price on the date of grant of the Share Award Scheme.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

32. SHARE AWARD SCHEME (CONTINUED)

2022 SHARE AWARD SCHEME

On 28 February 2022, pursuant to the 2020 Share Award Scheme, 42,000 ordinary shares of the Company were granted to a eligible participant at an exercise price of RMB9.21 per share. All the 42,000 ordinary shares are derived from the forfeited shares at the time of the resignation of the participants in the 2020 Share Award Schemes. All the 42,000 ordinary shares held by the eligible participants shall be vested (or repurchased and cancelled by the Company) in two tranches upon the expiry of each vesting period. The eligible participants include the members of senior management of the Company and the core technical personnel of the Company and its subsidiaries. Details of the vesting date are summarised as follows:

Type of eligible participants	% of conditional shares	Vesting date	% of vested conditional shares
1	100%	30 April 2021	60%
		30 April 2022	20%
		30 April 2023	20%

As for restricted shares, the conditions for releasing the restrictions comprised two parts, namely the Company achieving certain milestones in respect of its products and the participants passing annual performance review. The percentage of shares in respect of which the restrictions may be released depends on the achievement of those conditions.

All of the eligible participants have accepted the granted shares by signing off the offer letters. The Share Award Scheme shall be valid from the date of grant of the shares to the date on which all the restricted shares granted have been vested or otherwise repurchased and cancelled.

The following restricted shares were outstanding under the Share Award Scheme during the year:

	Number of shares
At 1 January 2022	—
Granted during the year	42,000
Vested during the year	(33,600)
At 31 December 2022	8,400

The aggregate fair value of the shares granted amounted to approximately RMB396,000 (42,000 shares with RMB9.44 per share), and the fair value is determined by the stock price on the date of grant of the Share Award Scheme.

The Group has recognised expenses of RMB11,013,000, deferred development costs of RMB704,000 and cost of sales of RMB1,504,000 for the year ended 31 December 2022 in respect of the 2018 Share Award Scheme, the 2020 Share Award Scheme, the 2021 Share Award Scheme and the 2022 Share Award Scheme (2021: The Group has recognised expenses of RMB47,705,000, deferred development costs of RMB4,806,000, cost of sales of RMB712,000 and inventories of RMB267,000).

As at the end of the year, 873,092 ordinary shares were still unvested, and the related other payables and accruals due from the repurchase obligation were RMB7,306,000 (note 24).

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

33. 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 RMB48,377,000 (2021: RMB53,121,000) and RMB48,377,000 (2021: RMB53,121,000), respectively, and no non-cash disposals to right-of-use assets (2021: nil) in respect of lease arrangements for plant and machinery.

(b) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES:

	Bank and other borrowings RMB'000	Lease liabilities RMB'000	Interest payable included in other payables and accruals RMB'000
2022			
At 1 January 2022	2,330,187	292,750	575
New leases	—	48,377	—
Changes from financing cash flows	1,073,563	(100,795)	(114,752)
Foreign exchange movement	12,148	5,850	—
Interest capitalised	—	—	25,124
Interest expense	105	14,910	90,657
At 31 December 2022	3,416,003	261,092	1,604
2021			
At 1 January 2021	1,540,642	292,975	672
New leases	—	53,121	—
Changes from financing cash flows	800,055	(68,390)	(83,204)
Government grants	(8,393)	—	—
Foreign exchange movement	(2,648)	(1,605)	—
Interest capitalised	—	—	15,467
Interest expense	531	16,649	67,640
At 31 December 2021	2,330,187	292,750	575

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) TOTAL CASH OUTFLOW FOR LEASES

The total cash outflow for leases included in the statement of cash flows is as follows:

	2022 RMB'000	2021 RMB'000
Within operating activities	5,594	5,093
Within investing activities	—	842
Within financing activities	100,795	68,390
	106,389	74,325

34. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's letter of credit and for the bank and other borrowings are included in notes 22 and 26, respectively, to the financial statements.

35. COMMITMENTS

(a) THE GROUP HAD THE FOLLOWING CAPITAL COMMITMENTS AT THE END OF THE REPORTING PERIOD:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for: plant and machinery	297,210	463,067

(b) The Group did not have any lease contracts that have not yet commenced as at 31 December 2022 and 2021.

(c) OTHER BUSINESS AGREEMENTS

The Company enters into collaboration agreements with companies to license intellectual property. The Company may be obligated to make future development, regulatory and commercial milestone payments and royalty payments on future sales of specified products associated with its collaboration agreements. Payment under these agreements generally become due and payable upon achievement of such milestones or sales. These commitments are not recorded in the consolidated financial statements because the achievement and timing of these milestones are not fixed and determinable. When the achievement of these milestones or sales has been reached, the corresponding amounts are recognised in the consolidated financial statements.

36. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any contingent liabilities.

37. RELATED PARTY TRANSACTIONS

The Directors are of the view that the following companies are related parties that have material transactions or balances with the Group during the year.

(a) NAME AND RELATIONSHIPS OF THE RELATED PARTIES

Name	Relationship with the Group
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* ("上海復星醫藥(集團)股份有限公司") ("Fosun Pharma")	Ultimate parent company
Shanghai Clone High Technology Co., Ltd.* ("上海克隆生物高技術有限公司") ("Clone High Tech")	Fellow subsidiary
Shanghai Kaimao Bio-Pharmaceutical Co., Ltd.* ("上海凱茂生物醫藥有限公司") ("Kai Mao Bio-pharma")	Fellow subsidiary
Shanghai Fosun Pharmaceutical Industrial Development Co., Ltd.* ("上海復星醫藥產業發展有限公司") ("Fosun Pharma Industrial Development")	Fellow subsidiary
Jiangsu Wanbang Pharmaceutical Limited Company* ("江蘇萬邦生化醫藥集團有限責任公司") ("Jiangsu Wanbang")	Fellow subsidiary
Fosun Pharmaceutical Distribution (Jiangsu) Co., Ltd.* ("江蘇復星醫藥銷售有限公司") ("Jiangsu Fosun")	Fellow subsidiary
Fosun Pharma USA Inc ("Fosun USA")	Fellow subsidiary
Shanghai Fudehui Trading Co., Ltd.* ("上海復得惠貿易有限公司") ("Shanghai Fudehui")	Fellow subsidiary
Shanghai Bohao Laboratory Co., Ltd.* ("上海伯豪醫學檢驗所有限公司") ("Shanghai Bohao")	Fellow subsidiary
Shanghai Old Temple Gold Co., Ltd.* ("上海老廟黃金有限公司") ("Old Temple Gold")	Fellow subsidiary
Suzhou Otovia Therapeutics Biotechnology Co., Ltd.* ("蘇州星奧拓維生物技術有限公司") ("Suzhou Otovia Therapeutics")	Fellow subsidiary
Zhejiang Xinghao Pengbo Pharmaceutical Co., Ltd.* ("浙江星浩澎博醫藥有限公司") ("Zhejiang Xinghao Pengbo")	Fellow subsidiary
Fosun Health Technology (Jiangsu) Co., Ltd.* ("復星健康科技(江蘇)有限公司") ("Fosun Health")	Fellow subsidiary
Fosun Diagnostics (Shanghai) Co., Ltd.* ("復星診斷科技(上海)有限公司") ("Fosun Diagnostics")	Fellow subsidiary
Shanghai Fukun Pharmaceutical Technology Development Co., Ltd.* ("上海復坤醫藥科技發展有限公司") ("Shanghai Fukun")	Fellow subsidiary
Shanghai Xingfu Enterprise Management Consulting Co., Ltd.* ("上海星服企業管理諮詢有限公司") ("Shanghai Xingfu")	Fellow subsidiary
Hainan Fosun Trade Co., Ltd.* ("海南復星商社貿易有限公司") ("Fosun Trade")	Fellow subsidiary
Hangzhou Dongjia Trade Co., Ltd.* ("杭州東加商貿有限公司") ("Dongjia Trade")	Fellow subsidiary
Zhejiang Fuyi cosmetics Co., Ltd.* ("浙江復逸化妝品有限公司") ("Zhejiang Fuyi")	Fellow subsidiary
Shanghai Yunji Information Technology Co., Ltd.* ("上海雲濟信息科技有限有限公司") ("Shanghai Yunji")	Fellow subsidiary

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) NAME AND RELATIONSHIPS OF THE RELATED PARTIES (CONTINUED)

Name	Relationship with the Group
Shanghai Yimi Information Technology Co., Ltd. ("上海醫米信息技術有限公司")("Shanghai Yimi")	Fellow subsidiary
Shanghai Club Med Travel Service Co., Ltd.* ("上海客美德假期旅行社有限公司")("Shanghai Club Med")	Fellow subsidiary
Shanghai Zilamai Trading Co., Ltd. * ("上海滋叻美貿易有限公司")("Shanghai Zilamai")	Fellow subsidiary
Sinopharm Group Co., Ltd. and its subsidiaries ("國藥控股股份有限公司"及其子公司) ("Sinopharm")	Associate of the ultimate parent company
Chongqing Pharmaceutical (Group) Co., Ltd. and its subsidiaries ("重慶醫藥(集團)股份有限公司"及其子公司)("Chongqing Pharma")	Associate of the ultimate parent company

* The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

(b) TRANSACTIONS WITH RELATED PARTIES

	Notes	2022 RMB'000	2021 RMB'000
Licensing revenue provided to related parties			
Fosun Pharma Industrial Development	(i)	20,870	10,398
Jiangsu Wanbang	(i)	2,605	981
		23,475	11,379
Services provided to related parties			
Fosun Pharma Industrial Development	(ii)	41,485	—
Zhejiang Xinghao Pengbo	(ii)	5,614	—
Jiangsu Fosun	(ii)	1,285	—
Suzhou Otovia Therapeutics	(ii)	329	—
		48,713	—
Sales of goods to related parties			
Sinopharm	(iii),(v)	1,000,669	458,237
Jiangsu Fosun	(iii),(v)	581,622	534,538
Chongqing Pharma	(iii)	55,574	32,946
		1,637,865	1,025,721

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	Notes	2022 RMB'000	2021 RMB'000
Services purchased from related parties			
Jiangsu Fosun	(iv),(v)	19,227	9,739
Shanghai Yunji	(iv),(v)	901	46
Fosun Health	(iv),(v)	753	—
Fosun Diagnostics	(iv),(v)	659	—
Shanghai Bohao	(iv)	575	—
Kai Mao Bio-pharma	(iv)	498	424
Shanghai Yimi	(iv)	415	—
Sinopharm	(iv),(v)	314	—
Shanghai Xingfu	(iv)	229	213
Clone High Tech	(iv)	201	391
Shanghai Club Med	(iv)	97	—
Shanghai Zilamai	(iv),(v)	88	—
Old Temple Gold	(iv),(v)	—	633
Fosun Trade	(iv)	—	501
Fosun USA	(iv)	—	339
Dongjia Trade	(iv)	—	246
Zhejiang Fuyi	(iv)	—	162
Shanghai Fudehui	(iv),(v)	—	123
Others	(iv),(v)	165	160
		24,122	12,977
Purchase of materials from Sinopharm	(iv),(v)	2,041	3,097
Purchase of right-of-use assets from			
Shanghai Fukun	(iv),(v)	16,640	—
Clone High Tech	(iv),(v)	14,857	31,233
		31,497	31,233
Purchase of fixed assets from			
Sinopharm	(iv)	4,385	—
Shanghai Yunji	(iv)	2,549	—
		6,934	—
Purchase of intangible assets from			
Fosun Pharma	(iv)	1,811	—
Shanghai Yunji	(iv)	75	—
		1,886	—

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Notes:

- (i) The Group granted exclusive licences of the Group's certain biopharmaceutical products in the PRC to related parties after the Group obtains the market distribution authorisation of such products from government authorities. The Group received advance payments from the customers accordingly. The licensing revenue is recognised over the commercialisation period. The transactions were carried out in accordance with the terms and conditions similar to those offered to unrelated customers in the ordinary course of business.
- (ii) The research and development services provided to related parties were carried out in accordance with the terms and conditions similar to those offered to unrelated customers in the ordinary course of business.
- (iii) The sale of biopharmaceutical products to related parties were carried out in accordance with the terms and conditions similar to those offered to unrelated customers in the ordinary course of business.
- (iv) The purchases and rental services from related parties were charged in accordance with the terms and conditions offered by the related parties to their unrelated customers.
- (v) The related party transactions in respect of the sale of goods to Jiangsu Fosun and Sinopharm, services purchased from Shanghai Fosun High Technology (Group) Co., Ltd. and Sinopharm, purchase of materials from Sinopharm and purchase of right-of-use assets from Clone High Tech and Shanghai Fukun also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Group confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of these transactions.

(c) OUTSTANDING BALANCES WITH RELATED PARTIES

	Notes	2022 RMB'000	2021 RMB'000
Amounts due from related parties			
<i>Trade receivables</i>			
Sinopharm	(i)	132,724	88,720
Jiangsu Fosun	(i)	35,397	52,281
Fosun Pharma Industrial Development	(i)	6,511	—
Chongqing Pharma	(i)	5,096	10,189
		179,728	151,190
<i>Prepayments, other receivables and other assets</i>			
Shanghai Fukun	(ii)	1,125	—
Fosun Diagnostics	(ii)	90	—
Sinopharm	(ii)	21	13
		1,236	13
<i>Other non-current assets</i>			
Shanghai Yunji	(ii)	115	—

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) OUTSTANDING BALANCES WITH RELATED PARTIES (CONTINUED)

	Notes	2022 RMB'000	2021 RMB'000
Amounts due to related parties			
<i>Trade payables</i>			
Sinopharm	(iii)	380	1,297
Zhejiang Xinghao Pengbo	(iii)	49	—
		429	1,297
<i>Other payables and accruals</i>			
Jiangsu Fosun	(iv)	16,889	9,935
Fosun Pharma	(iv)	3,526	3,526
Clone High Tech	(iv)	1,969	2,572
Sinopharm	(iv)	969	—
Shanghai Yimi	(iv)	875	—
Shanghai Yunji	(iv)	753	—
Shanghai Bohao	(iv)	578	—
Shanghai Xingfu	(iv)	229	72
Fosun Health	(iv)	173	—
Kai Mao Bio-pharma	(iv)	49	199
Fosun Trade	(iv)	—	500
Dongjia Trade	(iv)	—	246
Old Temple Gold	(iv)	—	241
Others	(iv)	154	61
		26,164	17,352
<i>Other long-term payable</i>			
Fosun Pharma Industrial Development	(vii)	235,849	—
<i>Lease liabilities</i>			
Clone High Tech	(v)	116,809	151,729
Shanghai Fukun	(v)	14,425	—
		131,234	151,729
<i>Contract liabilities</i>			
Fosun Pharma Industrial Development	(vi)	357,183	357,775
Jiangsu Wanbang	(vi)	82,286	84,892
Sinopharm	(vi)	56,509	—
Chongqing Pharma	(vi)	4,670	—
Suzhou Otovia Therapeutics	(vi)	360	—
Jiangsu Fosun	(vi)	179	—
		501,187	442,667

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) OUTSTANDING BALANCES WITH RELATED PARTIES (CONTINUED)

Notes:

- (i) The amounts due from related parties in the trade receivables were trade in nature, unsecured, interest-free and repayable within 90 days.
- (ii) The amounts due from related parties in the prepayments, deposits, other receivables and other non-current assets were trade in nature, unsecured, interest-free and have no fixed terms of repayment.
- (iii) The amounts due to related parties in trade payables were trade in nature, unsecured, interest-free and repayable. The outstanding balances were repayable within 90 days.
- (iv) The amounts due to related parties in other payables and accruals were unsecured, interest-free and have no fixed terms of repayment.
- (v) The Company rented plant and machinery from Clone High Tech and Shanghai Fukun, and recognised the corresponding lease liabilities. The maturity profile of the lease liabilities due to Clone High Tech and Shanghai Fukun as at 31 December 2022 is as follows:

	2022 RMB'000	2021 RMB'000
Within one year	46,558	45,690
In the second year	48,925	37,906
In the third to fifth years, inclusive	35,751	67,444
Beyond five years	—	689
	131,234	151,729

- (vi) The amounts due to related parties in contract liabilities were the advance payments of the License for certain biopharmaceutical products. These amounts are trade in nature, unsecured and with interest recognised which represented the significant financing component in the revenue contract.
- (vii) The amount represents the payable relating to the license out contract, the further detailed disclosure was in note 27 to the financial statements.

(d) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2022 RMB'000	2021 RMB'000
Fees	1,032	996
Other emoluments:		
Salaries, allowances and benefits in kind	39,464	28,567
Performance related bonuses	9,821	7,549
Staff welfare expenses	—	—
Share award scheme	10,216	35,834
Total compensation paid to key management personnel	60,533	72,946

Further details of Directors', supervisors' and chief executives' remuneration are included in note 9 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period of the Group are as follows:

2022 FINANCIAL ASSETS

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	Other financial assets RMB'000	RMB'000	RMB'000
Trade receivables	—	455,509	455,509
Financial assets included in prepayments, deposits and other receivables	—	31,395	31,395
Financial assets at fair value through profit or loss	160,186	—	160,186
Cash and bank balances	—	680,478	680,478
	160,186	1,167,382	1,327,568

2022 FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade payables	713,552
Financial liabilities included in other payables and accruals	318,807
Other long-term payables	235,849
Interest-bearing bank and other borrowings	3,677,095
	4,945,303

2021 FINANCIAL ASSETS

	Financial assets at amortised cost RMB'000
Trade receivables	295,741
Financial assets included in prepayments, deposits and other receivables	34,985
Cash and bank balances	707,333
	1,038,059

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2021 FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade payables	383,470
Financial liabilities included in other payables and accruals	217,389
Interest-bearing bank and other borrowings	2,622,937
	3,223,796

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value through profit or loss	160,186	—	160,186	—
Financial liabilities				
Interest-bearing bank and other borrowings (non-current portion) (other than lease liabilities)	975,293	833,700	965,952	812,958

Management has assessed that the fair values of cash and bank balances, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank and other borrowings 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 chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of the reporting period was assessed to be insignificant.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(CONTINUED)*

The Group's financial assets at fair value through profit or loss represents the Group's investments in the promissory notes through the AMTD Account as stated in Note 20 to the consolidated financial statements. The Group has estimated the fair value of these investments by using a discounted cash flow valuation model based on the expected terms of the investments and the credit risk of the issuers.

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2022

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	—	—	160,186	160,186

Liabilities for which fair values are disclosed:

As at 31 December 2022

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings (non-current portion) (other than lease liabilities)	—	965,952	—	965,952

As at 31 December 2021

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings (non-current portion) (other than lease liabilities)	—	812,958	—	812,958

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(CONTINUED)*

The movements in fair value measurements in Level 3 during each reporting period are as follows:

ASSETS MEASURED AT FAIR VALUE:

	2022 RMB'000
At beginning of year	—
Addition	550,610
Losses accrued in the prior year (note 20)	(191,271)
Change in fair value (note 20)	(199,153)
At end of year	160,186

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and bank balances, and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group does not use derivative financial instruments to hedge its interest rate risk. At 31 December 2022, approximately 64% (2021: 70%) of the Group's interest-bearing bank and other borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in equity RMB'000
Year ended 31 December 2022		
RMB	25	(3,067)
RMB	(25)	3,067
Year ended 31 December 2021		
RMB	25	(1,768)
RMB	(25)	1,768

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from activities by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and RMB exchange rate and in the USD, EUR and NTD exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity due to changes arising on fair values of monetary assets and liabilities.

	Increase/ (decrease) in USD rate %	Increase/ (decrease) in equity RMB'000
Year ended 31 December 2022		
If the RMB weakens against the USD	5	10,793
If the RMB strengthens against the USD	(5)	(10,793)
If the NTD weakens against the USD	5	706
If the NTD strengthens against the USD	(5)	(706)
If the RMB weakens against the EUR	5	(888)
If the RMB strengthens against the EUR	(5)	888
Year ended 31 December 2021		
If the RMB weakens against the USD	5	30,677
If the RMB strengthens against the USD	(5)	(30,677)
If the NTD weakens against the USD	5	638
If the NTD strengthens against the USD	(5)	(638)

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

MAXIMUM EXPOSURE AND YEAR-END STAGING

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

MAXIMUM EXPOSURE AND YEAR-END STAGING (CONTINUED)

As at 31 December 2022

	12-month ECLs Stage 1 RMB'000	Stage 2 RMB'000	Lifetime ECLs Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	—	—	462,607	462,607
Financial assets included in prepayments, deposits and other receivables					
– Normal**	31,395	—	—	—	31,395
Cash and bank balance					
– Not yet past due	680,476	—	—	—	680,476

As at 31 December 2021

	12-month ECLs Stage 1 RMB'000	Stage 2 RMB'000	Lifetime ECLs Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	—	—	301,201	301,201
Financial assets included in prepayments, deposits and other receivables					
– Normal**	34,985	—	—	—	34,985
Restricted cash for investment					
– Not yet past due	552,351	—	—	—	552,351
Cash and cash equivalents					
– Not yet past due	154,982	—	—	—	154,982

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

MAXIMUM EXPOSURE AND YEAR-END STAGING (CONTINUED)

At the end of the reporting period, the Group had certain concentrations of credit risk as 17% (2021: 20%) and 47% (2021: 50%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

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 of 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:

31 December 2022

	On demand or within one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade payables	713,552	—	—	713,552
Financial liabilities included in other payables and accruals	318,807	—	—	318,807
Other long-term payables	—	—	235,849	235,849
Lease liabilities	92,690	165,252	35,229	293,171
Interest-bearing bank and other borrowings (excluding lease liabilities)	2,481,050	808,029	322,478	3,611,557
	3,606,099	973,281	593,556	5,172,936

31 December 2021

	On demand or within one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade payables	383,470	—	—	383,470
Financial liabilities included in other payables and accruals	217,389	—	—	217,389
Lease liabilities	78,079	198,825	50,760	327,664
Interest-bearing bank and other borrowings (excluding lease liabilities)	1,521,333	351,773	681,691	2,554,797
	2,200,271	550,598	732,451	3,483,320

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

40. 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 payments to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank and other borrowings less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2022 RMB'000	2021 RMB'000
Interest-bearing bank and other borrowings (note 26)	3,677,095	2,622,937
Less: Cash and cash equivalents	673,476	154,982
Net debt	3,003,619	2,467,955
Equity attributable to owners of the parent	1,636,332	2,296,756
Capital and net debt	4,639,951	4,764,711
Gearing ratio	65%	52%

41. EVENTS AFTER THE REPORTING PERIOD

On 30 March 2023, the Company received a letter from the legal representatives of AMTD, attaching a Writ of Summons issued in relation to a litigation commenced by AMTD against the Company in the Court of First Instance of the High Court of Hong Kong. AMTD alleges that the Company has breached the IMA by withdrawing the USD30,640,000 mentioned in note 20 above without the written consent of AMTD, and not paying management fees for services provided by AMTD. AMTD seeks monetary and declaratory relief, as well as specific performance.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

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:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	228,381	199,440
Intangible assets	3,139,307	2,878,981
Investments in subsidiaries	1,717,115	1,524,838
Right-of-use assets	51,097	56,670
Other non-current assets	10,082	3,178
Total non-current assets	5,145,982	4,663,107
CURRENT ASSETS		
Trade receivables	891,311	65,145
Prepayments, deposits and other receivables	230,178	901,711
Inventory	155	—
Financial assets at fair value through profit or loss	160,186	—
Cash and cash balances	394,151	593,503
Total current assets	1,675,981	1,560,359
CURRENT LIABILITIES		
Trade payables	598,482	305,178
Other payables and accruals	639,764	479,965
Contract liabilities	189,445	77,988
Interest-bearing bank and other borrowings	1,305,303	708,243
Total current liabilities	2,732,994	1,571,374
NET CURRENT LIABILITIES	(1,057,013)	(11,015)
TOTAL ASSETS LESS CURRENT LIABILITIES	4,088,969	4,652,092
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	64,787	241,758
Other long-term payables	275,477	27,871
Contract liabilities	486,756	487,708
Deferred income	71,155	66,031
Total non-current liabilities	898,175	823,368
Net assets	3,190,794	3,828,724
EQUITY		
Share capital	543,495	543,495
Reserves (Note)	2,647,299	3,285,229
Total equity	3,190,794	3,828,724

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2021	5,954,236	1,205	(1,627,502)	4,327,939
Loss for the year	—	—	(1,125,194)	(1,125,194)
The vesting of restricted shares (note 32)	55,356	(26,362)	—	28,994
Equity-settled share-based payments (note 32)	—	53,490	—	53,490
At 31 December 2021 and 1 January 2022	6,009,592	28,333	(2,752,696)	3,285,229
Loss for the year	—	—	(676,762)	(676,762)
The vesting of restricted shares (note 32)	42,165	(16,554)	—	25,611
Equity-settled share-based payments (note 32)	—	13,221	—	13,221
At 31 December 2022	6,051,757	25,000	(3,429,458)	2,647,299

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 31 March 2023.

DEFINITIONS

In this annual report, the following expressions have the meanings set out below unless the context requires otherwise.

“2018 Share Award Scheme”	the share award scheme adopted pursuant to the original operating procedure of the employee equity incentive scheme signed in April 2018
“2020 Share Award Scheme”	the share award scheme adopted pursuant to the operating procedure of the 2020 employee equity incentive scheme
“A Share(s)”	RMB ordinary share(s) proposed to be issued by the Company pursuant to the A Share Offering
“A Share Offering”	the Company’s proposed initial public offering of A Shares, which are proposed to be listed on the Science and Technology Innovation Board of Shanghai Stock Exchange
“A Share Offering and Listing”	the Company’s proposed initial public offering of A Shares, and listing of such Shares on the Science and Technology Innovation Board of Shanghai Stock Exchange
“Abbott”	Abbott Operations Uruguay S.R.L.
“Accord”	Accord Healthcare Limited
“Administrative Framework Agreement”	the framework agreement dated 24 June 2020 entered into between Fosun High Tech and the Company relating to the procurement of services and products for administrative purpose between the Remaining Fosun High Tech Group and the Group, as renewed on 31 December 2020
“AMTD”	AMTD Global Markets Limited
“Articles of Association”	the articles of association of the Company
“Aton Ruilin”	Aton (Shanghai) Biotech Co., Ltd.* (安騰瑞霖(上海)生物科技有限公司), a wholly-owned subsidiary of the Company
“Biopharmaceutical Products”	the self-developed biopharmaceutical products (except for HLX01 and HLX03, the distribution of which is governed by the HLX01 Agreement and the HLX03 Agreement, respectively) of the Group
“Board”	the board of Directors of the Company
“Cayman Henlius”	Henlius Biopharmaceuticals, Inc., a company established in Cayman Islands on 23 February 2009, and a substantial shareholder
“CG Code”	Corporate Governance Code contained in Appendix 14 to the Listing Rules
“Clinical Trial Research Services Agreement”	the Clinical Trial Research Services Agreement dated 24 November 2022 entered into among the Company, Genuine Biotech and Fosun Pharma Industrial Development
“Clone High Tech”	Shanghai Clone High Technology Co., Ltd.* (上海克隆生物高技術有限公司), a limited liability company incorporated under the laws of the PRC and a wholly-owned subsidiary of Fosun Pharma

DEFINITIONS

“Company” or “Henlius”	Shanghai Henlius Biotech, Inc., a joint stock company incorporated under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange
“Company Law”	the Company Law of the PRC, as revised or supplemented from time to time
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	Ordinary Shares issued by the Company in the PRC with a nominal value of RMB1.00 each, which are subscribed for and paid for in RMB
“EMA”	European Medicines Agency
“EU”	European Union
“FDA”	the United States Food and Drug Administration
“FHL”	Fosun Holdings Limited (復星控股有限公司), a company incorporated in Hong Kong on 18 February 2005 with limited liability, and a controlling shareholder
“FIHL”	Fosun International Holdings Ltd. (復星國際控股有限公司), a company incorporated in the British Virgin Islands on 9 September 2004 with limited liability, and a controlling shareholder
“Fosun High Tech”	Shanghai Fosun High Technology (Group) Co., Ltd.* (上海復星高科技(集團)有限公司), a company incorporated in the PRC on 8 March 2005, and a controlling shareholder
“Fosun Industrial”	Fosun Industrial Co., Limited (復星實業(香港)有限公司), a company incorporated in Hong Kong on 22 September 2004 with limited liability
“Fosun International”	Fosun International Limited (復星國際有限公司), a company incorporated in Hong Kong on 24 December 2004 with limited liability, the shares of which are listed on the Main Board of the Stock Exchange, and a controlling shareholder
“Fosun New Medicine”	Shanghai Fosun New Medicine Research Company Limited (上海復星新藥研究有限公司), a company incorporated in the PRC on 12 September 2008 with limited liability, and a controlling shareholder
“Fosun Pharma”	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (上海復星醫藥(集團)股份有限公司), a joint stock company established in the PRC, the H shares and A shares of which are listed and traded on the Main Board of the Stock Exchange and the Shanghai Stock Exchange, respectively, and a controlling shareholder
“Fosun Pharma Industrial Development”	Shanghai Fosun Pharmaceutical Industrial Development Company Limited (上海復星醫藥產業發展有限公司), a company incorporated in the PRC on 27 November 2001 with limited liability, a wholly-owned subsidiary of Fosun Pharma, and a controlling shareholder
“Fosun Pharma Industrial Technical Services Agreement”	the technical services agreement dated 16 March 2022 entered into between the Company and Fosun Pharma Industrial Development

DEFINITIONS

“Framework Property Leasing Agreement”	the framework property leasing agreement dated 31 December 2019 entered into between the Company and Clone High Tech in relation to the leasing of the premises
“Fukun Pharmaceutical”	Shanghai Fukun Pharmaceutical Technology Development Co., Ltd.* (上海復坤醫藥科技發展有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of Fosun Pharma
“Genuine Biotech”	Henan Genuine Biotech Co., Ltd.* (河南真實生物科技有限公司), a company established in the PRC with limited liability
“Getz Pharma”	Getz Pharma (Private) Limited and its affiliated company, Getz Pharma International FZ-LLC
“Gland Pharma”	Gland Pharma Limited (stock code of Bombay Stock Exchange Limited and National Stock Exchange of India: GLAND)
“Global Offering”	the global offering comprises the Hong Kong public offering of 6,469,600 H Shares as well as the international offering of 58,225,800 H Shares initially available for subscription and 4,366,400 H Shares pursuant to the partial exercise of the over-allotment option
“GMP”	Good Manufacturing Practice of Medical Products
“Group”, “we”, “our” or “us”	the Company and its subsidiaries
“Guidelines for Biosimilars”	the Guidelines for the R&D and Evaluation of Biosimilars (Trial) (《生物類似藥研發與評價技術指導原則(試行)》)
“H Shares”	overseas listed foreign share(s) in the Company’s ordinary share capital, with a nominal value of RMB1.00 each, which were listed on the Stock Exchange and traded in Hong Kong dollars
“Hengenix”	Hengenix Biotech, Inc., a wholly-owned subsidiary of the Company
“HenLink”	HenLink, Inc., a company incorporated in the Cayman Islands on 15 August 2014 and a Shareholder whose beneficial owners are certain employees of the Group
“Henlius Biopharmaceuticals”	Shanghai Henlius Biopharmaceuticals Co., Ltd.* (上海復宏漢霖生物製藥有限公司), a wholly owned subsidiary of the Company
“Henlius Industrial”	Henlius Industrial Co., Limited, a wholly owned subsidiary of the Company
“Henlius Pharmaceutical”	Shanghai Henlius Biologics Co., Ltd.* (上海復宏漢霖生物醫藥有限公司), a wholly-owned subsidiary of the Company
“HK\$ or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HLX01 Agreement”	the cooperation agreement dated 18 September 2015 entered into with Fosun Pharma Industrial Development relating to cooperation arrangements for HLX01

DEFINITIONS

“HLX03 Agreement”	the cooperation agreement dated 18 September 2017 entered into with Jiangsu Wanbang (Group) Biopharmaceutical Co., Ltd., a wholly-owned subsidiary of Fosun Pharma, relating to the cooperation arrangements for HLX03
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or the “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRSs”	International Financial Reporting Standards
“IMA”	the investment management agreement dated on 25 September 2019 entered into between the the Company and AMTD
“IND”	investigational new drug or investigational new drug application, also known as clinical trial application in China
“Intas”	Intas Pharmaceuticals Limited, founded in 1976 and headquartered in India
“Jiangsu Fosun”	Jiangsu Fosun Pharmaceutical Sales Co., Ltd., a company incorporated in the PRC with limited liability, and a wholly owned subsidiary of Fosun Pharma
“Jiangsu Wanbang”	Jiangsu Wanbang (Group) Biopharmaceutical Co., Ltd., a company incorporated in the PRC with limited liability, and a wholly owned subsidiary of Fosun Pharma
“Jollin Lab”	Shanghai Jollin Lab Co., Ltd., a wholly owned subsidiary of the Company
“Latest Practicable Date”	14 April 2023, being the latest practicable date for ascertaining the contents set out in this report prior to printing
“Listing”	the listing of the H Shares on the Main Board of the Stock Exchange
“Listing Date”	25 September 2019, being the date on which the H Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAA”	marketing authorisation application
“mAb”	monoclonal antibodies
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“NDA”	new drug application
“NMPA”	the National Medical Products Administration of the PRC

DEFINITIONS

“PRC”, “China” or “Mainland China”	the People's Republic of China, but for the purposes of this annual report only, except where the context requires, references in this annual report to PRC, China or Mainland China exclude Hong Kong, Macau and Taiwan Regions
“Promotional Services Agreement”	the agreement entered into by Henlius Biopharmaceuticals and Jiangsu Fosun on 24 August 2020 in relation to the provision of promotional services by Jiangsu Fosun to the Group, as amended by a supplemental agreement on 31 December 2020
“Property Leasing Framework Agreements”	the Clone Property Leasing Framework Agreement and the Fukun Property Leasing Framework Agreement
“Prospectus”	the prospectus issued by the Company on 12 September 2019 in connection with the Global Offering
“R&D”	research and development
“Remaining Fosun High Tech Group”	Fosun High Tech and its subsidiaries, excluding the Group
“Reporting Period”	the year ended 31 December 2022
“Resigned Participants”	the participants of the 2018 and 2020 Share Award Scheme who were no longer employed by the Group
“Restricted Interest”	the interests held by the Resigned 2018 Participants in Shanghai Guoyun or HenLink (as the case may be) that remain subject to the transfer restrictions under the 2018 Share Award Scheme
“RMB”	Renminbi, the lawful currency of the PRC
“Rules of Procedures of the Board of Supervisors”	the rules of procedures of the Board of Supervisors of the Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shanghai Medical Products Administration”	the Shanghai Medical Products Administration
“Shanghai Guoyun”	Shanghai Guoyun Biotech Partnership Enterprise (Limited Partnership)* (上海果運生物技術合夥企業(有限合夥)), a company incorporated in the PRC on 9 August 2017 and a Shareholder whose beneficial owners are certain employees of the Group
“Share(s)”	ordinary shares with nominal value of RMB1.00 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)

DEFINITIONS

“Sinopharm”	Sinopharm Group Co. Ltd.* (國藥控股股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed and traded on the Stock Exchange
“Sinopharm Distribution Framework Agreement”	the distribution framework agreement dated 24 April 2020 entered into between the Company and Sinopharm relating to the distribution of the Biopharmaceutical Products by the Group to Sinopharm Group
“Sinopharm Group”	Sinopharm and its subsidiaries
“Sinopharm Industrial Investment”	Sinopharm Industrial Investment Co. Ltd.* (國藥產業投資有限公司), a company incorporated in the PRC on 5 June 2008 and the controlling shareholder of Sinopharm
“Sinopharm Procurement Framework Agreement”	the procurement framework agreement dated 24 April 2020 entered into between the Company and Sinopharm relating to the procurement of (i) warehousing and logistic services and (ii) raw materials by the Group from Sinopharm Group
“Songjiang First Plant”	the Company's manufacturing facility at Guangfu Lin Road of the Songjiang District of Shanghai
“Songjiang Second Plant”	Henlius Biotech Biopharmaceutical Industrialization Base II, the Company's manufacturing facility with total planned area of 200 acres currently under construction in the Songjiang District of Shanghai
“Supervisor(s)”	the supervisors(s) of the Company
“Taiwan Henlius”	Henlix Biotech Co., Ltd. (漢霖生技股份有限公司), a wholly-owned subsidiary of the Company
“U.S.” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“USD”	U.S. Dollars, the lawful currency of the U.S.
“Xinghao Pengbo”	Zhejiang Xinghao Pengbo Pharmaceutical Co., Ltd.* (浙江星浩澎博醫藥有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Fosun Pharma
“Xinghao Pengbo Technical Services Agreements”	the technical services agreement dated 28 March 2022 entered into between the Company and Xinghao Pengbo
“Xuhui Facility”	the Company's manufacturing facility at Yishan Road of the Xuhui District of Shanghai

In this annual report, if there is any inconsistency between the Chinese names of the entities, authorities, organisations, institutions, or enterprises established in China or the awards or certificate given in China and their English translations, the Chinese version shall prevail.

* For identification purpose only