Shandong Boan Biotechnology Co., Ltd.
山东博安生物技术股份有限公司

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

Stock Code : 6955

Boan Biotech
博安生物

2022
ANNUAL REPORT

CONTENTS

COMPANY OVERVIEW

Established in 2013, Shandong Boan Biotechnology Co., Ltd. (山东博安生物技术股份有限公司) ("Boan Biotech", the "Company" or "our Company", together with its subsidiaries, the "Group") is a fully-integrated biopharmaceutical company that specializes in developing, manufacturing and commercializing biologics, with a focus on oncology, autoimmune diseases, ophthalmology, and metabolic diseases. Our antibody discovery is based on three technology platforms: Human Antibody Transgenic Mouse and Phage Display Technology Platform, Bispecific T-cell Engager Technology Platform and Antibody-drug Conjugates ("ADC") Technology Platform. Our product portfolio currently includes two commercialized products, several investigational antibodies protected by international intellectual property rights, and biosimilar candidates. We operate across the entire value chain of the industry from antibody discovery, cell line development, upstream and downstream process development, analytical and bio-analytical method development, and technology transfer to pilot and commercial production. In addition to the People's Republic of China ("PRC" or "China" or "Mainland China"), we also conduct biopharmaceutical product development in overseas markets including the United States ("U.S.") and the European Union ("EU").

DIFFERENTIATED PRODUCT PORTFOLIO

As a result of our highly efficient in-house research and development ("R&D") capabilities, all products within Boan Biotech's product portfolio are internally developed. Currently, Boan Biotech has built a product portfolio of innovative antibody drug candidates and biosimilar drug candidates with international intellectual property protection, which not only provides a clear path for the Company's short-term commercialization, but also lays a good foundation for its long-term sustainable development.

To date, Boan Biotech has successfully commercialized two products: The first product Boyounuo® (BA1101), is the third approved biosimilar of bevacizumab indicated for the treatment of a variety of cancers in China. The second product Boyoubei® (BA6101), is the world's first approved biosimilar drug of denosumab for the treatment of osteoporosis. The Company has 11 additionally drug candidates, several of which are close to commercialization: BA1102 (denosumab injection, Xgeva® biosimilar) in the oncology field has been submitted for marketing application, BA9101 (aflibercept intravitreal injection, Eylea® biosimilar) in the ophthalmology field and BA5101 (dulaglutide injection, Trulicity® biosimilar) in the metabolic field are all in phase III clinical trials in China, with development progress at the forefront of the market. In addition, BA6101 and BA1102 are preparing phase III clinical trial overseas. The Company expects to file biologics license applications ("BLAs") for multiple drug candidates over the next two years.

In the development of innovative antibodies, Boan Biotech balances corporate values of both "innovation value" and "commercial visibility". While building a differentiated product portfolio, Boan Biotech also accelerates the R&D process to position itself for first-mover advantages. Boan Biotech has seven innovative antibody drug candidates, including: BA1105, an antibody-dependent cellular cytotoxity ("ADCC") enhanced Claudin 18.2 full human monoclonal antibody (entered clinical trial stage); BA1106, the first CD25 innovative antibody to enter clinical trial stage for the treatment of solid tumors in China; BA1301, an innovative antibody conjugate drug ("ADC") that has entered clinical trial stage; BA2101, the first long-acting full human monoclonal antibody against interleukin-4 receptor subunit α ("IL-4Rα") to enter clinical trial stage in the immunotherapy field in China.

INTEGRATED BIOPHARMACEUTICAL PLATFORM

Through years of accumulated expertise, the Company has established three independent innovation technology platforms, namely human antibody transgenic mice and phage display platform, bispecific T-cell engager platform, and ADC technology platform. It covers an integrated ecosystem from research and development to production and commercial operations, and an international professional team distributed in Yantai, Nanjing, Singapore, and Boston, laying a solid foundation for the efficient advancement of the product pipeline and eventual successful launch. By the end of 2022, the Company has 25 authorized patents and 45 valid pending patents.

Through these three proprietary innovation technology platforms, Boan Biotech has established a strong technical advantage: on the one hand, the Company is based on the human antibody transgenic mice BA-huMab® and phage display technology platform, improving the research and development efficiency of human monoclonal antibody products. Boan Biotech is also one of the few companies in China with a proprietary transgenic mouse platform. On the other hand, on the basis of monoclonal antibody products, the Company develops bispecific antibodies, ADC drugs, and others within the related field, through the bispecific T-cell Engager technology platform and ADC technology platform, forming a differentiated product portfolio.

Boan Biotech has a comprehensive and scalable biopharmaceutical platform, covering antibody discovery, cell line development, upstream and downstream process development, analytical and bio-analytical method development, technology transfer, and pilot and commercial scale production of a fully integrated industry chain. Moreover the Company's powerful Chemistry, Manufacturing and Controls ("CMC") capability ensures high quality and cost efficiency in the entire drug development and commercial production process, and can shorten the time of drug development, paving the way for the first advantage of its products. The Company has large pilot and commercial production site in Yantai, which is equipped with a number of production lines. This site meets various quality standards such as GMP set by the relevant regulatory authorities of China, Europe, and the U.S. and other relevant quality standards.

WELL-ESTABLISHED COMMERCIALIZATION CAPABILITIES

Boan Biotech has established an in-house sales and marketing team with extensive industry experience to develop and execute marketing strategies for products and drugs in development. Relying on the successful launch of its first product Boyounuo®, Boan Biotech has established a wide commercialization network and mature commercialization capabilities. Until now, its extensive distribution network has covered more than 1,000 hospitals countrywide. Through the commercialization process of Boyounuo®, Boan Biotech has proven the Company's ability to bring the biological drug portfolio to the market through R&D, manufacturing, and commercial operations channels, laying a foundation for subsequent drugs approaching the commercialization stage to achieve rapid launch and volume.

With excellent business development ability, Boan Biotech actively cooperates with high-quality partners. These partnerships aim to create synergies due to diverse resources and maximize the clinical value and market potential of products. For example: granting AstraZeneca (Wuxi) Trading Co., Ltd. (阿斯利康（無錫）貿易有限公司) ("Astrazeneca China") exclusive promotion of Boyounuo® in various provinces, municipalities, and counties; Cooperation with OcuMension Therapeutics (Zhejiang) Co., Ltd. (歐康維視（浙江）醫藥有限公司) ("OcuMension Therapeutics") (Stock code: 1477) on product development, promotion, and commercialization of BA9101 in China; granting CP Pharmaceutical Qingdao Co., Ltd. ("CP Qingdao") the exclusive right to commercialize denosumab injection (Boyoubei®) in mainland China. Utilizing a diversified commercialization strategy, Boan Biotech is gradually forming a multi-faceted parallel commercialization business model for operations in the domestic market, overseas market, and out-licensed business.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. JIANG Hua (姜華)
(Chief Executive Officer and Chairlady of our Board)
Dr. DOU Changlin (竇昌林)
(President of R&D and Chief Operating Officer)

Non-executive Directors

Mr. LIU Yuanchong (劉元沖)
Ms. LI Li (李莉)
Mr. CHEN Jie (陳杰)

Independent Non-executive Directors

Mr. SHI Luwen (史錄文)
Mr. DAI Jixiong (戴繼雄)
Dr. YU Jialin (余家林)

SUPERVISORS

Ms. ZHANG Xiaomei (張曉玫) *(Chairlady)*
Ms. NING Xia (寧夏)
Ms. LIU Xiangjie (劉祥杰)

COMPANY SECRETARY

Ms. LAI Siu Kuen (黎少娟) *(FCG, HKFCG)*

AUTHORISED REPRESENTATIVES

Ms. JIANG Hua (姜華)
Ms. LAI Siu Kuen (黎少娟)

AUDIT COMMITTEE

Mr. DAI Jixiong (戴繼雄) *(Chairperson)*
Mr. LIU Yuanchong (劉元沖)
Dr. YU Jialin (余家林)

REMUNERATION COMMITTEE

Dr. YU Jialin (余家林) *(Chairperson)*
Ms. LI Li (李莉)
Mr. DAI Jixiong (戴繼雄)

NOMINATION COMMITTEE

Mr. SHI Luwen (史錄文) *(Chairperson)*
Ms. LI Li (李莉)
Dr. YU Jialin (余家林)

STRATEGY COMMITTEE

Ms. JIANG Hua (姜華) *(Chairlady)*
Dr. DOU Changlin (竇昌林)
Mr. SHI Luwen (史錄文)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Ms. JIANG Hua (姜華) *(Chairlady)*
Dr. DOU Changlin (竇昌林)
Ms. LI Li (李莉)

REGISTERED OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

No. 39 Keji Avenue
High-Tech Industrial Development Zone
Yantai, Shandong Province
China

HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA

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Yantai, Shandong Province
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Hong Kong

As to PRC laws:
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AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
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Hong Kong

STOCK CODE

6955

COMPANY'S WEBSITE

www.boan-bio.com

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
China Everbright Bank Co., Ltd.
China Merchants Bank Co., Ltd.
Bank of America
Citibank N.A., Singapore Branch

FINANCIAL HIGHLIGHTS

1. REVENUE

During the year ended 31 December 2022 (the "Reporting Period"), the Group has built a dedicated commercialization team by use of proactive marketing strategy and efficient executive capability in sales, through which the Group rapidly established a foothold in the domestic market laying a solid foundation for the subsequent transformation of the Company. With the commercialization of two products, the Group witnessed a significant increase in revenue during the Reporting Period.

For the Reporting Period, the Group's revenue amounted to approximately RMB516.0 million, as compared to RMB158.7 million for the year ended 31 December 2021, representing an increase of approximately RMB357.3 million, or 225.1%. The increase was mainly attributable to the growth of sales of Boyounuo® (BA1101) in China and the launch of Boyoubei® (BA6101) in the end of 2022.

2. COST OF SALES

Cost of sales of the Group primarily represents materials and consumables, labour costs associated with production, utilities, maintenance fee as well as depreciation and amortisation expenses of production equipment, facilities and intangible assets. Our cost of sales increased from RMB52.2 million, for the year ended 31 December 2021, to approximately RMB161.7 million, for the year ended 31 December 2022, which accounted for approximately 31.3% of our total revenue for the same year (2021: 32.9%). The decrease in cost of sales margin was mainly due to the increase of production volume leading to lower unit cost of manufacturing in 2022.

3. GROSS PROFIT

For the year ended 31 December 2022, the Group recorded a gross profit of approximately RMB354.2 million, representing an increase of approximately RMB247.7 million, or 232.6%, as compared with that for the year ended 31 December 2021, mainly due to the gross profit contribution from the two commercialized products of the Company.

4. SELLING AND DISTRIBUTION EXPENSES

For the year ended 31 December 2022, the Group's selling and distribution expenses amounted to RMB214.1 million, as compared to RMB54.0 million for the year ended 31 December 2021, representing an increase of RMB160.1 million, or 296.5%. The increase in selling expenses was in line with the revenue growth during the same period.

5. RESEARCH AND DEVELOPMENT EXPENSES

The following table sets forth a breakdown of the Group's R&D expenses for the years indicated:

	2022 RMB'000	2021 RMB'000
R&D service fees	176,079	82,707
Raw materials and consumables expenses	100,377	54,459
Staff costs and share-based payments	73,558	59,164
Depreciation and amortisation expenses	23,958	23,376
Others	26,366	11,861
	400,338	231,567

For the year ended 31 December 2022, the Group's recognised R&D expenses of approximately RMB400.3 million, representing an increase of approximately RMB168.7 million as compared with that to the year ended 31 December 2021. The increased R&D expenses was mainly due to the increasing investment in R&D projects to accelerate the Company's innovation and transformation.

6. THREE-YEAR FINANCIAL SUMMARY

	2020 RMB Million	2021 RMB Million	2022 RMB Million
Revenue	–	158.7	516.0
Gross profit	–	106.5	354.2
Net loss	(240.5)	(225.4)	(331.7)
Total assets	908.0	2,106.6	2,202.6
Total liability	426.4	554.9	784.2
Equity	481.6	1,551.7	1,418.4

CHAIRLADY'S STATEMENT

Dear Shareholders

On behalf of the board of Directors, I am pleased to report the results of Boan Biotech for the year ended 31 December 2022, as well as a brief outlook for the Company in 2023.

Boan Biotech is a fully integrated biopharmaceutical company dedicated to the development, manufacturing, and commercialization of quality biological drugs in China and around the world, providing innovative and accessible treatment solutions for common major therapeutic areas such as oncology, metabolism, autoimmune, and ophthalmology.

In 2022, Boan Biotech achieved breakthrough results in light of the challenges brought on by the COVID-19 pandemic and broader industry transitions. In addition to reaching a new high in commercial revenue, the Company also effectively promoted the successful launch of one product, facilitated the market review stage entrance of one drug candidate, made significant progress in phase 3 clinical trials for two drug candidates, and initiated five innovative antibodies into phase 1 clinical trials. In addition, the Company also achieved significant milestones in the capital market: it was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 December 2022, and was included in the list of securities available on the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect on 13 March 2023.

1. COMMERCIAL REVENUE REACHING RECORD HIGHS

In 2022, Boan Biotech had operating revenue reaching RMB516.0 million, with a significant increase of around 225.1%, mainly due to the strong sales growth of Boyounuo® (Avastin® biosimilar) and the successful launch of Boyoubei® (Prolia® biosimilar) in late 2022. In addition, the Company's gross profit in 2022 reached approximately RMB354.2 million, exhibiting significant year-on-year growth of 232.6%, with a positive improvement in gross margin as compared to that of 2021.

2. EFFICIENT PRODUCT PIPELINE DEVELOPMENT

The Company is based on three independent innovation technology platforms: Human Antibody Transgenic Mouse and Phage Display Technology Platform, Bispecific T-cell Engager Technology Platform and ADC Technology Platform. Through these platforms, the Company has built a well-diversified product portfolio, including the two commercialized products mentioned above, as well as seven other innovative antibody drug candidates and four biosimilar drug candidates.

Since 2022, the Company has made significant progress in several research and development pipeline projects: Boyoubei® has been approved and marketed in China as the world's first denosumab biosimilar drug and is being developed in Europe and the United States. One drug candidate, BA1102 (Xgeva® biosimilar), entered the marketing review stage in China and is undergoing development in Europe and the United States. Two drug candidates made significant progress in phase 3 clinical trials, including BA5101, the world's first Phase 3 biosimilar drug of Dulaglutide. Five innovative antibodies under development have entered phase 1 clinical trials, including BA1106 (non-IL-2-blocking anti-CD25 antibody), BA2101 (anti-IL4rα monoclonal antibody), and BA1301 (ADC targeting Claudin 18.2).

3. VERIFIED COMMERCIAL CAPABILITIES

Boan Biotech is one of the few domestic biopharmaceutical companies with operations across the entire industry value chain of "R&D – production – commercialization". Our highly integrated and collaborative internal operation system allows us to realize self-sufficiency in developing drugs in a shorter period of time, and ensure the excellent launch of subsequent products under development through strong commercial momentum. In 2022, the Company's first product, Boyounuo®, continued to achieve rapid growth and outstanding commercialization achievements. Based on the track record of the successful commercialization of Boyounuo® and the Company's continuous mature commercialization capability, the second product, Boyoubei®, has been approved to make significant progress in terms of medical insurance access and commercialization cooperation in a shorter time.

4. BUSINESS OUTLOOK

Boan Biotech's solid business fundamentals remain the backbone of the Company, supporting us through the business cycle and market fluctuations. Due to our differentiated product portfolio and increasingly mature commercialization capabilities, the Company has built an industry-wide value chain operation system covering "R&D – production – commercialization", laying a strong foundation for long-term high-quality development.

At present, Boan Biotech is making headway through a period of rapid development. We expect that 2023 will be an inflection point for the Company's commercial product revenue growth, and an imperative year of change in accelerating the progress of our innovative antibody pipeline. We will continue the momentum of vigorous development, further accelerate the clinical development of core products in China and the overseas market in the global market, enrich our innovative antibody product portfolio, deepen internal manufacturing capabilities and global commercialization capabilities, and actively expand various business cooperation. Our goal is to keep improving with high-quality innovation to meet the needs of patients, shareholders, and society.

Shandong Boan Biotechnology Co., Ltd.
Chief Executive Officer and Chairlady
JIANG Hua
27 March 2023

BUSINESS OVERVIEW

Established in 2013, Boan Biotech is a fully-integrated biopharmaceutical company that specializes in developing, manufacturing and commercializing therapeutic antibodies, with a focus on oncology, autoimmune diseases, ophthalmology, and metabolic diseases. Our antibody discovery is based on three technology platforms: Human Antibody Transgenic Mouse and Phage Display Technology Platform, Bispecific T-cell Engager Technology Platform and Antibody-drug Conjugates Technology Platform. As of the date of this report, our product portfolio currently includes two commercialized products, seven investigational antibodies protected by international intellectual property rights, and four biosimilar candidates.

We operate across the entire value chain of the industry from antibody discovery, cell line development, upstream and downstream process development, analytical and bio-analytical method development, and technology transfer to pilot and commercial production. In addition to the PRC, we also conduct biopharmaceutical product development in the U.S. and the EU.

2022 REVIEW: MEMORABLE YEAR WITH SIGNIFICANT ACHIEVEMENTS

With the achievement of a series of major milestones, 2022 was a memorable year for us. We have made significant achievements in all aspects of pipeline development, sales and marketing, manufacturing and business collaboration.

As of the date of this report, two of our products (Boyounuo® (BA1101) and Boyoubei® (BA6101)) have been successfully marketed in mainland China. During the Reporting Period, we recorded an increase in revenue of 225.1% to RMB516.0 million as compared to that of 2021, which demonstrated our capability to bring our biologics portfolio to market. In January 2023, two new indications of Boyounuo® were successfully included in the updated China's National Reimbursement Drug List ("NRDL") and Boyoubei® obtained the code of NRDL. In addition, we have granted CP Qingdao the exclusive right to commercialize Boyoubei® in mainland China, details of which have been disclosed in the Company's announcement dated 10 January 2023. We believe the reimbursement arrangement for Boyounuo® under the NRDL and the commercialization collaboration for Boyoubei® could help these products achieve continuous growth in sales.

From the beginning of 2022 to the date of this report, one new product (Boyoubei®) of us has been approved by the National Medical Products Administration of China ("NMPA") for marketing in China. Three product candidates of us have remarkable progress in phase 3 clinical trials. BA1102 completed its phase 3 clinical trial and filed BLA in China in March 2023. BA9101 completed patient enrolment of its phase 3 clinical trial in China in March 2023. BA5101 entered into its phase 3 clinical trial in China in July 2022. In addition, we also have multiple impressive progress in innovative product pipeline in China. 4 of them entered into phase 1 clinical trials, 1 of them received investigational new drug ("IND") approval and 1 of them submitted IND application. In addition to China, our BA6101 and BA1102 also completed the patient enrolment for their international phase 1 clinical trials and are planning for their international phase 3 clinical trials.

In order to improve our R&D capabilities and industry influence, we have expanded our R&D team, issued new patents and published research papers. As of 31 December 2022, our R&D team expanded to 285 experienced employees covering biopharmaceutical discovery research, biotechnology research, biopharmaceutical analysis research, biological activity research, non-clinical research, pilot process research, clinical research, regulatory affairs, project management and intellectual property and other R&D functions. From the beginning of 2022 to the date of this report, we had 21 patents granted worldwide and we also published 7 new research papers.

We have sufficient production capacity to meet the current commercial needs of our products. As of the date of this report, we have commercial production capacity of 8,000L and pilot production capacity of 1,700L. We also have multiple production lines under development: two production lines with 2*500L capacity for pilot production and two production lines with 3*2,000L capacity for commercial production.

On 30 December 2022 (the "Listing Date"), we completed our initial public offering (the "Global Offering") and our H shares (the "Shares") were listed on the Main Board of the Stock Exchange. On 13 March 2023, we were included both in the list of stocks under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

Apart from the abovementioned achievements, we also believe the following strengths and progress have contributed towards our success and differentiate us from other biopharmaceutical companies.

RISK-BALANCED PRODUCT PIPELINE

We, through years of efforts and dedication, have incubated a robust and risk-balanced portfolio, which brings us clear short-term commercial visibility and allows us to pursue long-term sustainable growth. Specifically, our portfolio, including two commercialized products, seven investigational antibodies, and four biosimilar candidates, as of the date of this report, focuses on popular key therapeutic areas including oncology, metabolism, autoimmunity and ophthalmology, which entail significant unmet market demand and potential in China and overseas.

The following table summarizes our Commercialized Products and drug candidate pipeline under development in China and worldwide across various therapeutic areas as of the date of this report:

Portfolio	Therapeutic area	Product (reference drug)	Target	Indication	Commercial rights	Clinical trial region	Pre-clinical	IND	Phase 1	Phase 2	Phase 3	BLA filed	BLA approved
Innovative Antibody Portfolio	Oncology	BA1105	Claudin 18.2 (ADCC)	Advanced gastric cancer, metastatic pancreatic cancer, and adenocarcinoma of the esophagogastric junction	Worldwide	China							
		BA1301	Claudin 18.2 ADC	Gastric cancer, pancreatic cancer, and esophageal cancer	Worldwide	China							
		BA1201	PD-L1/ TGF-β	SCLC, NSCLC, cervical cancer, urothelial carcinoma, and advanced gastrointestinal tumors	Worldwide	China							
		BA1202	CEA/CD3	CRC, pancreatic duct adenocarcinoma, etc.	Worldwide	China							
		BA1106	CD25	Solid tumor	Worldwide	China							
		BA1302	CD228 ADC	CRC, breast cancer, NSCLC, pancreatic cancer, etc.	Worldwide	China							
	Autoimmunity	BA2101	IL4R	Atopic dermatitis, asthma, sinusitis, pruritus, urticaria, etc.	Worldwide	China							
Biosimilar Portfolio	Oncology	Boyounuo® (BA1101, an Avastin® biosimilar)	VEGF	mCRC, advanced metastatic or recurrent NSCLC, recurrent glioblastoma, epithelial ovarian, fallopian tube or primary peritoneal cancer, and cervical cancer	Worldwide	China							
		Boluojia® (BA1102, Xgeva® biosimilar)	RANKL	Bone metastases from solid tumors, and GCTB	Worldwide	China							
						Overseas							
		BA1104 (Opdivo® biosimilar)	PD-1	Melanoma, NSCLC, malignant pleural mesothelioma, RCC, cHL, SCCHN, urothelial carcinoma, colorectal cancer, HCC, esophageal cancer, gastric cancer, gastroesophageal junction cancer, and esophageal adenocarcinoma	Worldwide	China							
						Overseas							
	Metabolism	Boyoubei® (BA6101, Prolia® biosimilar)	RANKL	Osteoporosis	Worldwide	China						Commercialization Rights Granted to CP Qingdao	
						Overseas							
		BA5101 (Trulicity® biosimilar)	GLP-1	Type 2 diabetes	Worldwide	China							
						Overseas							
	Ophthalmology	BA9101 (Eylea® biosimilar)	VEGF	wAMD, RVO, DME, and DR	Worldwide	China						Promotion Rights Granted to OcuMension	
						Overseas							

Commercialized products

Boyounuo® (bevacizumab injection): an anti-VEGF humanized monoclonal antibody injection and a biosimilar to Avastin® independently developed by us; approved for marketing by the NMPA in April 2021.

In February 2022, Boyounuo® obtained the NMPA approvals to extrapolate its indications to epithelial ovarian, fallopian tube or primary peritoneal cancer and cervical cancer. As of the date of this report, Boyounuo® has been approved by the NMPA for the treatment of mCRC, advanced metastatic or recurrent non-small cell lung cancer, recurrent glioblastoma, epithelial ovarian, fallopian tube or primary peritoneal cancer and cervical cancer.

In January 2023, 2 new indications of Boyounuo® were successfully included in the updated NRDL. As of the date of this report, Boyounuo® has been included in the updated NRDL for all 5 indications. The approval and reimbursement could further enhance the accessibility of our high-quality bevacizumab injection and alleviate financial burden for Chinese patients and their families.

Boyoubei® (denosumab injection): a human immunoglobulin G2 monoclonal antibody of the RANK ligand and the first biosimilar to Prolia® independently developed by us; approved for marketing by the NMPA in November 2022.

In November 2022, Boyoubei® was approved for the treatment of postmenopausal women with osteoporosis at high risk for fracture. This product can significantly reduce the risk of vertebral, non-vertebral and hip fractures in postmenopausal women. As far as the Company is aware, Boyoubei® is the first biosimilar to Prolia® approved for marketing in the world. In addition to China market, Boyoubei® is being developed in Europe and the U.S., with a plan to be marketed in the global markets. In December 2022, Boyoubei® obtained the code of NRDL and the reimbursement could lay the foundation for rapid commercialization of Boyoubei® in the future.

Core Products

As at the date of this report, the Group has the following three Core Products (as defined under Chapter 18A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

1. **Boyoubei® (denosumab injection):** Please refer to the information under "Commercialized products" above.

2. **BA1102 (denosumab injection):** a fully human IgG2 anti-RANKL monoclonal antibody and a biosimilar to Xgeva® independently developed by the Group.

   BA1102 is a biosimilar of XGEVA®. Its active ingredient is denosumab, a fully human IgG2 anti-RANKL monoclonal antibody. Denosumab binds to RANKL and it inhibits the activation of OPG/RANKL/RANK signalling pathways, and thus inhibits tumour growth and reduces bone destruction. BA1102 is indicated for the treatment of patients with bone metastases from solid tumours and patients with multiple myeloma, to delay or reduce the risk of skeletal-related events (e.g. pathologic fractures, spinal cord compression, bone radiotherapy or bone surgery). The drug is also indicated for the treatment of adults and skeletally mature adolescents (defined as having at least one mature long bone and with body weight of 45 kg or above) with giant cell tumour of bone ("GCTB") that is unresectable or where surgical resection is likely to result in severe morbidity.

   In March 2023, the BLA of BA1102 has been accepted by NMPA in China. The Company expects to receive the market approval of BA1102 in the second half of 2024 in China. In addition to China market, BA1102 is being developed in Europe and the U.S., with a plan to be marketed in the global markets. BA6101 and BA1102 completed the patient enrollment for their international phase 1 clinical trials in 2022. The Company expects to initiate their international phase 3 clinical trials in the second quarter of 2023. The Company plans to further submit their BLA in the overseas market after the completion of their international phase 3 clinical trials.

3. **LY-CovMab:** a fully human monoclonal antibody manufactured by recombinant technology and used to counteract COVID-19.

   LY-CovMab is a SARS-CoV-2 neutralizing antibody candidate for treatment of COVID-19. It was in phase 2 clinical trial in China. Given that the therapeutic area of LY-CovMab is infectious disease, the progress of its clinical trials is subject to various factors, such as the infectivity and severity of the virus, the virus variants which are spreading, and the patient enrollment process. The Company will consider its further clinical development according to the results of its phase 2 clinical trial and the situation of pandemic.

Warning under Rule 18A.08(3) of the Listing Rules: Save for the Core Product which has been commercialized as disclosed above, there is no assurance that the Core Products will ultimately be successfully developed and marketed by the Company. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the Shares of the Company.

Products to be commercialized in the near future

BA1102 (denosumab injection): Please refer to the information above under “Core Products”.

BA9101 (aflibercept intravitreous injection): a recombinant human vascular endothelial growth factor receptor antibody fusion protein ophthalmic injection and a biosimilar to Eylea®.

Aflibercept is a homodimeric fusion protein consisting of portions of human vascular endothelial growth factor receptor (“VEGFR”) extracellular domains (VEGFR 1 Ig2 and VEGFR 2 Ig3) fused to the Fc portion of human IgG1. Aflibercept acts as a soluble decoy receptor that binds VEGF-A, VEGF-B and PlGF, and thereby can inhibit the binding and activation of VEGF and PlGF, so it can be used as the treatment for pathological neovascular ophthalmopathy of retina and choroid. EYLEA® was approved by the U.S. Food and Drug Administration in 2011 and currently it was approved for the treatment of Neovascular (Wet) Age-Related Macular Degeneration (“wAMD”), Macular Edema Following Retinal Vein Occlusion (RVO), Diabetic Macular Edema (“DME”), Diabetic Retinopathy (DR) and Retinopathy of Prematurity (ROP) worldwide. Aflibercept was approved in 2018 in China for the treatment of wAMD and DME.

In March 2023, BA9101 completed the patient enrolment for its phase 3 clinical trial in China. Pursuant to a collaboration and exclusive promotion agreement entered in October 2020, we jointly developed BA9101 with Ocumension Therapeutics in the phase 3 clinical trial of BA9101. We have granted Ocumension Therapeutics an exclusive right to promote and commercialize BA9101 in mainland China. We believe that Ocumension Therapeutics, as a well-known ophthalmology company with a professional team, will accelerate the clinical trials and commercialization of BA9101 to meet the urgent clinical needs of Chinese patients and strengthen our position in the field of biological products.

BA5101 (dulaglutide injection): a long-acting glucagon-like peptide-1 (GLP-1) receptor agonist and a biosimilar to Trulicity® independently developed by us.

Dulaglutide can activate GLP-1 receptor and increase the intracellular cyclic AMP (cAMP) in beta cells leading to glucose-dependent insulin release. It can also decrease glucagon secretion and delays gastric emptying. Compared with other original glucose-reducing drugs, its advantages are that it can improve pancreatic islet beta cells function, effectively reduce glycemia and HbA1c levels, and rarely cause hypoglycemia. It can also reduce weight and reduce the risk of major adverse cardiovascular events. A number of relevant clinical studies have shown that it is a safe and effective long-acting drug for type 2 diabetes medication. Its once-a-week dosing regimen can reduce the inconvenience of patients when taking the drug, improve compliance and improve the quality of life of patients with type 2 diabetes. BA5101 is indicated for glycemic control in adults with type 2 diabetes mellitus.

In July 2022, BA5101 entered into phase 3 clinical trial (comparative clinical efficacy and safety studies) in China.

Innovative products entered into clinical trials

BA1105: a recombinant anti-Claudin 18.2 fully human IgG1 monoclonal antibody independently developed by us.

Claudin 18.2 protein is a transmembrane protein involved in the regulation of tight junctions between cells, and can be consistently and stably highly expressed in gastrointestinal tumours. BA1105 is a recombinant anti-Claudin 18.2 fully human IgG1 monoclonal antibody, which enhances tumour-killing efficacy by enhancing ADCC effect. BA1105 introduces amino acid mutations in the Fc region to enhance the ADCC effect.

We received the IND approval for BA1105 from the NMPA in September 2021, and initiated the phase 1 clinical trial in January 2022.

BA1201: an anti-PD-L1/TGF-β bispecific antibody fusion protein independently developed by us.

Different from the monoclonal antibodies against a single target, bispecific antibodies can bind to two antigens at the same time and regulate two signal pathways related to the treatment of cancer, which has unique advantages in cancer immunotherapy. BA1201 includes an anti-PD-L1 antibody infused with TGF-β Type II Receptor domain at its C terminal. BA1201 can not only inhibit PD-L1/PD-1 signalling pathway but also inhibit TGF-β/TGF-βRII signalling pathway, which can eliminate immunosuppression and restore the immune system to target tumour cells for killing, making it more potent than anti-PD-L1 monoclonal antibodies.

We began the development of BA1201 in September 2019 and received the IND approval for BA1201 from the Centre for Drug Evaluation ("CDE") in December 2021. In August 2022, we initiated the phase 1 clinical trial in China.

BA1106: a non-IL-2 blocking anti-CD25 antibody independently developed by us.

BA1106 is the first investigational anti-CD25 antibody to start clinical trials in China for treating solid tumours. Anti-CD25 antibodies are broad-spectrum immuno-oncology drugs with the potential to treat multiple cancers where CD25 is highly expressed, including cervical cancer, renal cancer, ovarian cancer, melanoma, pancreatic cancers, hepatocellular carcinoma, gastric cancer, and breast cancer. BA1106 therefore has great potential for treating those cancers. However, developing anti-CD25 antibodies faces two major challenges: first, the function of Fc as a mediator is limited, and as a result, they only work in early-stage tumour models, not in late-stage tumour models; second, the IL-2 signalling pathway is blocked, leading to poor antitumor outcomes. BA1106 is a drug candidate that can successfully overcome these two challenges.

The main mechanism of action of BA1106 is to deplete Treg cells in the tumour microenvironment through the ADCC and increase the number of effector T cells. Preclinical studies have shown that BA1106 demonstrated a good therapeutic effect on both early-stage and late-stage tumour models as well as a synergy when used in combination with an anti-PD-1 antibody. Moreover, BA1106 does not block the IL-2 signalling pathway, and depletes Treg cells moderately and specifically, with the potential for monotherapy and combination therapy. The results of the study on BA1106 have been published in *Scientific Reports*, a journal of *Nature*.

In September 2022, we received the IND approval from CDE for BA1106 and initiated the phase 1 clinical trial in February 2023 in China.

BA2101: a long-acting human monoclonal antibody of the IgG4 subtype that targets IL-4Rα independently developed by us.

Recognized as a Class 1 innovative biological product in China, BA2101 is the first long-acting anti-IL-4Rα monoclonal antibody that enters the clinical trial stage in the country. It is intended to be used for treating allergic diseases caused by Th2 inflammation, including atopic dermatitis, asthma, chronic rhinosinusitis with nasal polyps, prurigo nodularis, and chronic spontaneous urticaria (CSU).

The drug can inhibit IL-4 and IL-13 signalling simultaneously, regulate Th2 inflammatory pathway, and reduce eosinophils and circulating IgE levels. It is designed to be administered subcutaneously with an expected dosing interval of 4 weeks.

IL-4Rα is a key target for the treatment of Th2 inflammatory diseases, and the long-acting mechanism of BA2101 makes it easier to provide a long-term and standard treatment for such diseases. Preclinical studies show that BA2101 has a longer half-life and higher drug exposure in cynomolgus monkeys than the marketed product with the same target. BA2101 may be administered once every 4 weeks in humans, while drugs with the same target usually adopt a 2-week dosing interval. BA2101 is more convenient for clinical use, providing important clinical value in the long-term management of Th2 inflammatory diseases.

We received the IND approval for BA2101 in October 2022 and initiated the phase 1 clinical trial in February 2023 in China.

BA1301: an ADC candidate that targets Claudin 18.2 developed by us.

BA1301 for injection is our first novel ADC candidate that targets Claudin 18.2. It employs a site-specific conjugation technology to connect the cytotoxic payload with a monoclonal antibody that targets Claudin 18.2. This enables the cytotoxic payload to be directed to the tumour site through the targeting characteristics of the antibody. Such design reduces the toxic side effects of the cytotoxic payload, thus improving the therapeutic window, while retaining its tumour-killing effect.

We submitted the IND application for BA1301 in October 2022 and received the IND approval in January 2023 in China.

WELL-ESTABLISHED COMMERCIALIZATION CAPABILITY

We have successfully expanded our commercial portfolio into two products (Boyounuo® and Boyoubei®) spanning over multiple therapeutic areas.

During the Reporting Period, we have increased product revenue by 225.1% to RMB516.0 million, compared to RMB158.7 million in the previous year, mainly driven by the solid growth of our first marketed product Boyounuo® (bevacizumab injection) coupled with the launch of new product Boyoubei® (denosumab injection).

Leveraging our well-established and demonstrated commercialization capability backed by marketing strategies implemented by our dedicated sales and marketing team, we believe that we are well positioned to achieve speed-to-market and rapid ramp-up of product sales. Internally, we have a dedicated in-house sales and marketing team with extensive industry experience, and they develop and implement marketing and sales initiatives and plans of our product and drug candidates in their scheduled rollouts. As of 31 December 2022, our in-house sales and marketing team consisted of 40 employees. Externally, we collaborate with various resourceful business partners which lay the foundation for our strong commercialization capability. As of 31 December 2022, we engaged 43 third party promoters providing us with promotional services. Our collaboration with experienced third-party promoters effectively publicizes and maximize market potential of our products.

We had an extensive distribution network of more than 200 distributors as of 31 December 2022, penetrating selected regions and reaching more than 1,300 target hospitals and institutions in China.

In January 2023, we have granted the CP Qingdao the exclusive right to commercialize Boyoubei® in mainland China. CP Qingdao has been focusing on osteoporosis therapeutic field for many years with multiple products. Their core product in this field has a leading position in the market of mainland China. Boyoubei® may form a competitive product portfolio with their current products in this field to achieve greater synergies. We believe that we can leverage on CP Qingdao's professional marketing and sales team and extensive distribution network in this field to accelerate the commercialization of Boyoubei® to meet the urgent clinical needs of Chinese patients.

STRONG R&D CAPABILITIES

We have a fully-fledged proprietary R&D technology platform focusing on antibody discovery and drug development. We have R&D teams and facilities located in Yantai and Nanjing in China and Boston in the U.S., with rich experience and strong track records in drug discovery and development. In terms of technology, we boast proprietary Human Antibody Transgenic Mouse and Phage Display Technology Platform, Bispecific T-cell Engager Technology Platform and ADC Technology Platform which we believe provide us with great technological support.

Our high calibre R&D team has outstanding execution capability in drug development with a proven track record. As of 31 December 2022, our R&D team consisted of 285 experienced employees covering biopharmaceutical discovery research, biotechnology research, biopharmaceutical analysis research, biological activity research, non-clinical research, pilot process research, clinical research, regulatory affairs, project management and intellectual property and other R&D functions, most of whom had R&D and clinical experience of more than six years.

As a biopharmaceutical company, we are keenly aware of the importance of establishing and protecting our intellectual property rights. We have filed a number of patent applications for our drug candidates in various jurisdictions, and expect to rely on a combination of patents, trademarks, trade secrets and other intellectual property rights, as well as employee and third-party confidentiality agreements, in order to safeguard our intellectual properties. As of 31 December 2022, we had 25 granted patents and 45 pending patent applications worldwide.

Underpinned by our strong R&D capability, we have published 12 research papers in world-renowned academic journals including, Cell Discovery of Nature, Antibody Therapeutics, and Cancer Communications, introducing our research breakthroughs on some of our drug candidates.

STRONG CMC CAPABILITY

We take pride in our strong CMC capability which is the backbone of the high quality and cost efficiency we have maintained throughout the process of our drug development and commercial production, especially in cell line development, upstream and downstream process development, analytical and bio-analytical method development as well as technology transfer. Our CMC function establishes practical qualitative and quantitative standards for us to maintain product quality and effectively progresses drug discovery to actual manufacturing.

We have a sizable pilot and commercial production site located in Yantai, China. We employ a robust quality management system for the Yantai Site that meets various quality standards such as good manufacturing practice set by the relevant regulatory authorities of China and the EU and has passed a number of audits in China and the EU. Our Yantai Site, having a total gross floor area of approximately 33,504.1 sq.m., houses a number of production lines with a total capacity of 1,700L for pilot production and 8,000L for commercial production, as well as two formulation filling lines for both pilot and commercial production as of the date of this report. Our production is managed by a strong manufacturing team, which as of 31 December 2022 had a total of 384 employees.

Besides production capacity, our proprietary manufacturing capability, such as perfusion culture and fed-batch culture, provides flexibility and improves the throughput and production efficiency. Our Yantai Site is also highly versatile, adaptable to manufacturing drugs targeting different antibodies, and is capable of producing various formulations. To further improve production cost efficiency, we utilize digital management in production.

Our strong CMC capability accumulated through years of effort shortens drug development time and enables speed-to-market. We believe such capability is a formidable barrier to competitors and has paved the way for our early-mover advantage.

EXTENSIVE COLLABORATION WITH VARIOUS RESOURCEFUL BUSINESS PARTNERS

Our collaboration with experienced third-party promoters effectively publicizes and maximizes the market potential of our products. For example, in May 2021, we entered into an agreement with AstraZeneca China, as amended by a supplemental agreement dated 7 March 2022, regarding the promotion rights to Boyounuo® for a term of five years, under which we agreed to grant to AstraZeneca China exclusive promotion rights in certain cities and counties of various provinces and autonomous regions in China. We have seen significant progress delivered by our collaboration with AstraZeneca China, which has contributed its years of broad market coverage and channel development in China. Through our joint efforts with AstraZeneca China, as of 31 December 2022, Boyounuo® had a coverage in 31 provinces, autonomous regions and municipalities in China.

In January 2023, we have granted CP Qingdao the exclusive right to commercialize Boyoubei® in mainland China. The term of the agreement is five years, upon expiry of which CP Qingdao has the first right to renew the grant of exclusive commercialization rights of this product under the same conditions. CP Qingdao has been focusing on osteoporosis therapeutic field for many years with multiple products. Their core product in this field has a leading position in the market of mainland China. Boyoubei® may form a competitive product portfolio with their current products in this field to achieve greater synergies. We believe that, leveraging CP Qingdao's professional marketing and sales team and extensive distribution network in this field will accelerate the commercialization of Boyoubei® to meet the urgent clinical needs of Chinese patients.

Apart from our success in the commercialization of our launched products, we also pay close attention to identify and maximize early commercialization opportunities of advanced drug candidates. For example, on 28 October 2020 we entered into an agreement with OcuMension Therapeutics, as amended by a supplemental agreement dated 31 May 2021, regarding the product development cooperation and promotion and commercialization of BA9101 in China for a term of 10 years, under which we granted OcuMension Therapeutics certain exclusive rights to promote and commercialize BA9101 in China. In March 2023, BA9101 completed the patient enrolment for its phase 3 clinical trial in China. We believe that our collaboration with OcuMension Therapeutics, as a well-known ophthalmology pharmaceutical company with a professional team, will accelerate the clinical trials and commercialization of BA9101 to meet the urgent clinical needs of Chinese patients and strengthen our position in the field of biological products.

2023 OUTLOOK

On 30 December 2022, we were listed on the Main Board of the Stock Exchange. As our first year in the capital market, we anticipate that 2023 will be a harvest year with revenue growth of commercialized products and a transformative year to speed up our pipeline progress in innovative antibodies. Our vision is to become a leading biopharmaceutical company. We plan to expand our overseas footprint leveraging our strengths and the leading position we are thriving to maintain in China. In order to achieve our vision and goals, we plan to pursue the following strategies.

Further strengthen our marketing capability and accelerate the commercialization of our drug candidates leveraging our experience in commercializing Boyounuo®

We plan to continue to strengthen our commercialization capability, which is critical to our future success and profitability. Particularly, we plan to enhance the market share of Boyounuo® by expanding our sales and marketing team and strengthening our distribution channels to cover more target hospitals. Our distributors and promoters support us in the sales and marketing of our products. Therefore, we plan to broaden our nationwide sales and distribution network through collaboration with sizable distributors having comprehensive distribution channels to reach more target hospitals with potential strong demand of our products. We also plan to continue to expand our experienced and professional sales and marketing team in China, which mainly focuses on market access, medical affairs, and any other promotional initiatives in the therapeutic areas of oncology, metabolism, autoimmunity and ophthalmology. To promote our products nationwide, we intend to selectively enter into promotion agreements with reputable pharmaceutical companies and continue to collaborate with leading key opinion leaders in market education and product promotion. For hospital coverage, we will endeavour to enhance the penetration rate of hospitals in China with tailored strategies for our specific products.

Establishing our marketing network and expanding our overseas footprint is instrumental to our vision of becoming a leading global biopharmaceutical company. We plan to expand our presence into international markets through a number of ways in selected markets or regions including accelerating clinical trial plans, identifying and working with suitable distributors and collaborating with international reputable industry players on business development.

Accelerate clinical development of our pipeline products towards commercialization in selected overseas markets

We plan to continue to accelerate clinical trials of drug candidates and regulatory approval towards commercialization. Specifically, in order to launch potential first-to-market biosimilar drugs with leading market share, we will continue to strengthen our competitive edge on biosimilar drug development to enhance commercialization visibility. We will also implement our first-to-market clinical development strategy, especially for our innovative antibody drug candidates focusing on oncology with unmet medical needs, to accelerate the clinical trial and regulatory approval.

To strengthen our innovative antibody drug pipeline and accelerate clinical development, with excellent drug development skills, we seek to maintain a risk-balanced portfolio with a strategic combination of mature targets and new targets aiming to become first-in-class drugs.

Enrich our innovative antibody portfolio to maximize our long-term commercial potential

Leveraging our strong R&D capability and proprietary technology platforms, we plan to continue to develop innovative antibody drug candidates with strategically selected antibody targets and huge market potential. For example, we will continue to optimize our proprietary technology platforms to support the development of our innovative antibody drug pipeline and advance clinical studies for new programs. We will also selectively pursue strategic collaborations with respect to product license-in to enrich our portfolio and support our long-term sustainable growth. In particular, we will prioritize license-in of products and product candidates focusing on oncology, with innovative targets or developed through advanced technology platforms to enrich our portfolio and strengthen R&D competitiveness. We plan to enhance our R&D resources by hiring talent with extensive international drug discovery and development experience and by improving our R&D facilities and infrastructure.

Continue to expand in-house manufacturing capability

To support the growing sales of Boyounuo® and anticipated upcoming product launches, we plan to increase our investment in manufacturing equipment to expand manufacturing capacity, including two production lines each with three 2,000L single-use bioreactors for commercial production, to fulfil the anticipated large demand for commercialized products. We will seek to develop and optimize in-house process technologies, upgrade our production facilities, enhance production know-how, as well as introduce a new technology platform, with a view to retaining high-cost efficiency and production quality. We also plan to expand our in-house manufacturing and quality control team by attracting and retaining experienced talent with in-depth know-how.

Explore collaboration with reputable international partners to expand overseas presence

Our integrated biopharmaceutical platform built upon in-house capabilities throughout the entire biologics value chain enables us to expand our overseas presence. We will maximize the value of our platform by exploring collaboration with reputable international partners in a number of ways. For example, we plan to selectively enter into strategic cooperation including license-out or co-development with international partners to facilitate the clinical development and commercialization of our drug candidates overseas, broadening our geographic coverage. For example, we may cooperate with business partners including promoters and distributors to commercialize BA1102, BA6101 and BA5101. We may explore co-development opportunities with leading global pharmaceutical companies and academic institutions to enhance our technology platforms. To commercialize our drug candidates outside of China to maximize their market potential, we will selectively collaborate with strategic partners. Finally, we plan to enter into license-in collaboration with selected international partners, including products at pre-clinical and clinical development stages, and products that have completed clinical trials, where we can leverage our regulatory affairs and commercialization capability to commercialize the in-licensed products and diversify our future revenue stream. We will select international partners which conduct R&D in the same indication areas with ours or have products or product candidates complementary to our product candidates, especially having late-stage clinical product candidates in oncology, diabetes, and orthopaedics, with certain validation of clinical results.

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group has built a dedicated commercialization team by use of proactive marketing strategy and efficient executive capability in sales, through which the Group rapidly established a foothold in the domestic market laying a solid foundation for the subsequent transformation of the Company. With the commercialization of two products, the Group witnessed a significant increase in revenue during the Reporting Period.

For the year ended 31 December 2022, the Group's revenue amounted to approximately RMB516.0 million, as compared to RMB158.7 million for the year ended 31 December 2021, representing an increase of approximately RMB357.3 million, or 225.1%. The increase was mainly attributable to the growth of sales of Boyounuo® (BA1101) in China and the launch of Boyoubei® (BA6101) in the end of 2022.

Cost of Sales

Cost of sales of the Group primarily represents materials and consumables, labour costs associated with production, utilities and maintenance fee as well as depreciation and amortisation expenses of production equipment, facilities and intangible assets.

Our cost of sales increased from RMB52.2 million for the year ended 31 December 2021 to approximately RMB161.7 million for the year ended 31 December 2022, which accounted for approximately 31.3% of our total revenue for the same year (2021: 32.9%). The decrease in cost of sales margin was mainly due to the increase of production volume leading lower unit cost of manufacturing in 2022.

Gross Profit

For the year ended 31 December 2022, the Group recorded a gross profit of approximately RMB354.2 million, representing an increase of approximately RMB247.7 million, or 232.6%, as compared with that for the year ended 31 December 2021, mainly due to the gross profit contribution from the two commercialized products of the Company.

Other Income and Gains

Other income and gains consist of government grants, bank interest income, foreign exchange gain and others. Government grants mainly represent subsidies received from local government authorities to support the Group's research and development activities and operation.

During the Reporting Period, the Group recognised other income and gains of approximately RMB24.3 million (2021: RMB13.4 million).

	2022 RMB'000	2021 RMB'000
Government grants	16,301	4,264
Bank interest income	5,568	9,101
Foreign exchange gain, net	2,381	–
Others	98	–
	24,348	13,365

Administrative Expenses

Our administrative expenses increased significantly from RMB42.2 million for the year ended 31 December 2021 to RMB82.3 million for the year ended 31 December 2022, primarily due to the increase in the listing expenses from RMB2.4 million for the year ended 31 December 2021 to RMB43.1 million for year ended 31 December 2022 for the Global Offering.

Selling and Distribution Expenses

For the year ended 31 December 2022, the Group's selling and distribution expenses amounted to RMB214.1 million, as compared to RMB54.0 million for the year ended 31 December 2021, representing an increase of RMB160.1 million, or 296.5%. The increase in selling expenses during the year ended 31 December 2022 was in line with the revenue growth during the same period.

Research and Development Expenses

The following table sets forth a breakdown of the Group's R&D expenses for the years indicated:

	2022 RMB'000	2021 RMB'000
R&D service fees	176,079	82,707
Raw materials and consumables expenses	100,377	54,459
Staff costs and share-based payments	73,558	59,164
Depreciation and amortisation expenses	23,958	23,376
Others	26,366	11,861
	400,338	231,567

For the year ended 31 December 2022, the Group's recognised R&D expenses of approximately RMB400.3 million, representing an increase of approximately RMB168.7 million as compared with that to the year ended 31 December 2021.The increased R&D expenses was mainly due to the increasing investment in R&D projects to accelerate the Company's innovation and transformation.

Finance Costs

For the year ended 31 December 2022, the Group's finance costs amounted to RMB13.4 million, as compared to RMB11.6 million for the year ended 31 December 2021, representing an increase of approximately RMB1.8 million, or 15.5%. The increase was mainly due to the increase in interest expenses incurred on bank loans for the year ended 31 December 2022 resulting from the increase in level of bank borrowings as compared to the corresponding year ended 31 December 2021.

Income Tax Expense

As we were loss-making for the years ended 31 December 2021 and 2022, we did not incur income tax expenses.

Loss for the Year

As a result of the above, our loss for the year amounted to RMB331.7 million for the year ended 31 December 2022, as compared to RMB225.4 million for the year ended 31 December 2021.

Liquidity, Financial and Capital Resources

The Group's primary sources of liquidity consist of cash and cash equivalents, which the Group have historically generated primarily through pre-IPO investments and bank loans. The Company expects that the Group's cash needs in the near future will primarily relate to progressing the development of its drug candidates towards receiving regulatory approval and commencing commercialization, as well as expanding its drug candidate portfolio. In 2022, we actively explored financing channel and managed to maintain our cash position for the Group's sustainable development.

As of 31 December 2022, we had cash and cash equivalents of RMB233.5 million, representing a decrease of 56.1% compared to RMB531.7 million as at 31 December 2021. As at 31 December 2022, the Group had net current assets of approximately RMB375.0 million, as compared to approximately RMB679.4 million as at 31 December 2021. The current ratio of the Group decreased slightly to approximately 1.80 as at 31 December 2022 from approximately 3.61 as at 31 December 2021. The decrease in net current assets was mainly attributable to increased short-term bank loans and higher other payables and accruals under the Group's current liabilities.

As at 31 December 2022, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB293.3 million, as compared to approximately RMB250.0 million as at 31 December 2021. The balances of the bank loans to the Group as at 31 December 2021 and 2022 were mainly due to a RMB250.0 million loan facility granted to the Group in 2021 (the "Loan"), which shall be used to settle the Group's shareholder loans in relation to machinery and equipment under installation for its new production lines. The Loan is due in 2026 and bears a floating interest rate updated per annum which is the latest five-year loan prime rate plus 5 basis points. The other portion of the Group's current interest-bearing bank loans as at 31 December 2022 was attributable to the discounted notes receivable of RMB22.8 million because the Group discounted certain notes receivable to the bank prior to the notes' maturity date with effective interest rates within a range between 1.40% to 2.20% to fund its daily operations.

Amongst the loans and borrowings, approximately RMB83.3 million are repayable within one year, and approximately RMB210.0 million are repayable after one year.

Gearing Ratio

As at 31 December 2022, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 20.7% from 16.1% as at 31 December 2021. The increase was primarily due to an increase in the Group's discounted notes receivable and short-term bank loans during the Reporting Period.

Capital Commitments

The Group has leased certain offices, equipment and buildings under operating lease arrangements ranging from one to five years in duration. The Group had capital commitments for the acquisition of property, plant and equipment with amounts of RMB236.4 million as of 31 December 2022 (2021: RMB109.0 million). They primarily relate to expenditures expected to be incurred for the purchase of machinery and renovation of our existing laboratories and buildings.

Capital Expenditure

The Group's capital expenditure during the Reporting Period represented purchases of property, plant and equipment to enhance its research and development capabilities and expand its business operation. For the year ended 31 December 2022, the Group's additions to property, plant and equipment were RMB121.8 million (2021: RMB90.3 million).

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2022.

Charges on Group Assets

As at 31 December 2022, certain of the Group's property, plant and equipment, right-of-use assets and time deposits with an aggregate amount of RMB387.9 million were pledged to secure its bank loans.

Foreign Exchange and Exchange Rate Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk as at 31 December 2022. The directors of the Company (the "Directors") expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

Share-based Payment

In December 2020, the Board passed a resolution to grant equity interests of the Company to the eligible employees (including its directors) in order to provide incentives and rewards to participants for the business development of the Group. Subsequently, three limited partnerships were established as employee incentive platforms in the PRC.

The Group recognised a share-based payment expense of RMB18.5 million during the Reporting Period (2021: RMB21.3 million).

Hedging Activities

As at 31 December 2022, the Group did not use any financial instruments for hedging purposes and did not enter into any hedging transactions in respect of foreign currency risk or interest rate risk..

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group employed a total of 745 employees, as compared to a total of 572 employees as at 31 December 2021. For the year ended 31 December 2022, the staff costs, (including Directors' emoluments but excluding any contributions to pension scheme), were approximately RMB121.4 million as compared to RMB89.8 million for the year ended 31 December 2021. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not hold any significant investment with a value greater than 5% of its total assets as at 31 December 2022. The Group does not have plans for material investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not conduct any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Reporting Period.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

After 31 December 2022 and up to the date of this report, there was no event occurred that has significantly affected the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company, or the laws of the PRC, which would oblige the Company to offer new shares of the Company on a pro-rata basis to its existing shareholders.

DIVIDEND

No dividends were declared for the year ended 31 December 2022 (2021: Nil).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Set forth below is the composition of the board of directors, the supervisors of the Company (the "Supervisors") and senior management of the Company as at 31 December 2022.

DIRECTORS

Executive Directors

Ms. JIANG Hua (姜華) ("Ms. JIANG"), aged 45, was appointed as our Director on 22 June 2020 and re-designated as our executive Director on 25 March 2022. She is the Chairlady and Chief Executive Officer of our Company and the sole director of Nanjing Boan Biotechnology Co., Ltd. (南京博安生物技術有限公司) (the "Boan Nanjing"). She is responsible for overseeing the corporate management, strategic and business development of our Group and overseeing our Board. Ms. JIANG has over 24 years of experience in the pharmaceutical industry in the PRC. Prior to joining our Group, from September 1998 to September 2020, she worked at Luye Pharma Group Ltd. (绿叶制药集团有限公司) (the "Luye Group") with her last position as vice president, where she was primarily responsible for the Luye Group's investment, strategy and business development and investor relations management. Ms. JIANG obtained a bachelor's degree in economics from Fudan University in the PRC in July 1998. She also obtained a master's degree in business administration from KEDGE Business School (formerly known as Euromed Marseille Ecole de Management) in France in May 2007 and a doctor's degree in business administration from United Business Institutes in Belgium in June 2012. She also obtained a qualification of economist (經濟師) issued by Ministry of Human Resources and Social Security of the PRC (formerly known as Ministry of Personnel of the PRC) in November 2003.

Dr. DOU Changlin (竇昌林) ("Dr. DOU"), aged 59, was appointed as our Director on 16 November 2019 and re-designated as our executive Director on 25 March 2022. Dr. DOU joined our Company in December 2013 and was responsible for the preliminary set up of our Company and its technological platforms. He is currently our president of R&D, chief operating officer and the sole director of Boan Boston LLC ("Boan Boston"). He is responsible for formulating the R&D and product line development strategies, implementing the R&D activities and overseeing the management of drug development processes of our Group. Dr. DOU has over 24 years of experience in the pharmaceutical industry, including biopharmaceutical R&D, manufacturing and quality management in various multinational companies. Prior to joining our Group, from September 1995 to November 1999, he worked at Memorial Sloan Kettering Cancer Centre, a leading cancer research and treatment centre in the U.S., where he was primarily responsible for research in neuroscience and developmental biology. From November 1999 to December 2005, he worked at Regeneron Pharmaceuticals, Inc., a biotechnology company principally engaged in life-transforming medicines in the U.S., where he was primarily responsible for R&D in antibody and recombinant protein drugs including key products such as Eylea®, leading high expression technology development and was the inventor for two patents granted in the U.S.. From February 2006 to November 2007, he served as a group leader at Genentech, a biotechnology company that is now a subsidiary of the Roche Group in the U.S., where he was primarily engaged in the R&D of antibody drugs and innovative antibody production technologies. From December 2007 to March 2009, he served as a group leader at Invitrogen Corporation, a biotechnology company in the U.S., where he was primarily responsible for the R&D of stable cell line technology and early stage development of therapeutic protein products. He also served as a group leader at Cellular Dynamics International, a leading developer and manufacturer of human cells used in drug discovery, toxicity testing, stem cell banking and cell therapy development in the U.S., where he was primarily responsible for leading the R&D of cell technologies. From July 2011 to June 2012, he last served as a chief technical officer at A-Bio Pharma Pte. Ltd, a biologic contract manufacturing organization (CMO) principally engaged in research, process development and manufacturing service contracting in Singapore, where he was primarily responsible for formulating and implementing the R&D activities and strategic development of the company. From July 2012 to December 2013, he served as a director of biotechnology at the Luye Group, where he was primarily responsible for the strategic development and product planning of the Luye Group's R&D in biopharmaceutical drugs. Dr. DOU obtained a bachelor's degree in biology from Peking University in the PRC in July 1984. He also obtained a master's degree from the Institute of Neuroscience of the Chinese Academy of Sciences (中國科學院神經科學研究所) (formerly known as Shanghai Brain Research Institute of the Chinese Academy of Sciences (中國科學院上海腦研究所)) in the PRC in March 1988 and a doctor's degree from the State University of New York at Stony Brook in the U.S. in December 1995.

Dr. DOU is the inventor of 18 invention patents for innovative antibody drug candidates and production methods, of which four of them have been successfully granted and the remainder are under review. He has also co-authored a number of scientific publications in journals and the following table is a summary of Dr. DOU's selected publications as the corresponding author in 2021:

Article	Journal	Article Date
Structure and function analysis of a potent human neutralizing antibody CA521^{FALA} against SARS-CoV-2[1]	Communications Biology journal published by Nature Portfolio	23 April 2021
Two novel human anti-CD25 antibodies with antitumor activity inversely related to their affinity and in vitro activity[2]	Scientific Reports journal published by Nature Portfolio	25 November 2021

Notes:

1. Song, D., Wang, W., Dong, C. et al. Structure and function analysis of a potent human neutralizing antibody CA521^{FALA} against SARS-CoV-2. Commun Biol 4, 500 (2021).

2. Song, D., Liu, X., Dong, C. et al. Two novel human anti-CD25 antibodies with antitumor activity inversely related to their affinity and in vitro activity. Sci Rep 11, 22966 (2021).

Non-executive Directors

Mr. LIU Yuanchong (劉元沖) ("Mr. LIU"), aged 59, was appointed as our Director on 22 June 2020 and re-designated as our non-executive Director on 25 March 2022. He joined our Group in December 2013 and is responsible for providing strategic advice and recommendations on the operations and management of our Group. Mr. LIU has over 34 years of experience in accounting and audit. Prior to joining our Group, from 1980 to 1983, he worked at Shandong Laiyang Biochemical Pharmaceutical Factory (山東萊陽生物製藥廠). From September 1983 to September 1986, he served as a teacher at Yantai Business Vocational Secondary School (煙台商業中專), a secondary school in the PRC. He also served as the head of accounting at Yantai Alternator Plant (煙台家電交電總公司). Since March 1997, he has served in various positions in the Luye Group, with his latest position as the chief financial officer of the Luye Group, where he is primarily responsible for the overall financial management of the Luye Group. Since November 2010, he has served as a director of Beijing Peking University WBL Biotech Co., Ltd (北京北大維信生物科技有限公司), a joint-venture company set up by the Luye Group and Peking University principally engaged in R&D, production and sale of modern Chinese medicine, where he is primarily responsible for advising on the Company's business and investment plans. Since February 2020, he has served as a director of Shandong Asj Biotechnology Co., Ltd. (山東愛士津生物技術有限公司), a company principally engaged in manufacturing biological products in the PRC, where he is primarily responsible for advising on the Company's business and investment plans. Mr. LIU obtained an associate degree in commercial economics from Shandong Institute of Commerce and Technology (山東商業職業技術學院) (formerly known as Shandong Vocational University of Commerce (山東省商業職工大學)) in the PRC in September 1989. He also obtained a postgraduate certificate in financial management from Peking University in the PRC in October 2006. He obtained an accountant qualification issued by the Ministry of Human Resources and Social Security of the PRC (formerly known as the Ministry of Personnel of the PRC) and the Ministry of Finance of the PRC in November 1993.

Ms. LI Li (李莉) ("Ms. LI"), aged 48, was appointed as our Director on 22 June 2020 and re-designated as our non-executive Director on 25 March 2022. She is responsible for providing strategic advice and recommendations on the operations and management of our Group. Ms. LI has over 25 years of experience in the pharmaceutical industry. Prior to joining our Group, since July 1997, she has served in various positions in the Luye Group, with her latest position as a vice president of the Luye Pharma Group, where she takes full responsibility for sales and marketing management in China. Since February 2020, she has been serving as a director at Shandong Asj Biotechnology Co., Ltd. (山東愛士津生物技術有限公司), a company principally engaged in the production of biological products in the PRC, where she is primarily responsible for providing strategic development advice, selecting and overseeing the performance of directors and senior management. Since November 2020, she has been serving as a director at Guangzhou Patronus Biotechnology Co., Ltd. (廣州派諾生物技術有限公司), a scientific research company in the PRC, where she is primarily responsible for providing strategic development advice, selecting and overseeing the performance of directors and senior management. Ms. LI obtained a bachelor's degree in biochemistry from Yantai University in the PRC in July 1997. She also completed a postgraduate course in applied psychology and human resources management and development at Institute of Psychology of Chinese Academy of Sciences (中國科學院心理研究所) in the PRC in February 2009 and obtained 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 August 2021.

Mr. CHEN Jie (陳杰) ("Mr. CHEN"), aged 50, was appointed as our Director on 25 January 2021 and re-designated as our non-executive Director on 25 March 2022. He is responsible for providing strategic advice and recommendations on the operations and management of our Group. He has over 20 years of managerial experience in consulting, investment and multinational companies. Prior to joining our Group, from September 1995 to May 1999, he last served as a Guangzhou branch general manager at Shell (China) Ltd, a company principally engaged in development and utilization of petroleum and other energy sources in the PRC, where he was primarily responsible for overseeing the group-wide efficiency, quality control and managing the group's affairs. From December 2002 to June 2004, he served as a consultant in AT Kearney (Shanghai) Management Consulting Co., Ltd., a management consulting firm. From October 2004 to April 2006, he served as a business development manager at Eaton (China) Investments Co. Ltd (伊頓(中國)投資有限公司), a company principally engaged in capital investment in the PRC, where he was primarily responsible for mergers and acquisitions and business development. From March 2006 to October 2008, he served as a business manager of professional product at Syngenta (China) Investment Co., Ltd. Shanghai Branch (先正達(中國)投資有限公司上海分公司), a science-based agricultural technology company in the PRC, where he was primarily responsible for overseeing product management. From October 2008 to May 2010, he served as a managing director of CXC Capital, Inc (開投基金), a venture capital firm in the PRC. From June 2010 to April 2012, he served as a senior vice president of GL Capital Group (德福資本), a private equity investment in the PRC. In September 2013, he co-founded SIP Sungent, an investment firm focusing on early and growth stage life science and healthcare investments and one of our Pre-IPO Investors, where he was primarily responsible for investment management. In April 2016, he co-founded Suzhou Yuansheng Private Fund Management Partnership (Limited Partnership) (蘇州元生私募基金管理合伙企業(有限合伙)), a limited partnership which is principally engaged in investment and consulting services, where he was primarily responsible for investment management. From July 2016 to June 2021, he last served as a non-executive director of Kintor Pharmaceuticals Limited, a company principally engaged in developing novel drugs and whose shares are listed on the Stock Exchange (stock code: 9939), where he is primarily responsible for overseeing the corporate development and strategic planning of the group. Since January 2016, he has been serving as a director of Shenzhen Nanomicro Technology Co., Ltd (深圳

市納微科技有限公司), a subsidiary of Suzhou Nanomicro Technology Co., Ltd. (蘇州納微科技股份有限公司) and whose shares are listed on the Shanghai Stock Exchange (the "SSE") (stock code: 688690), where he is primarily responsible for providing strategic development advice and recommendations on the operations and management of the group. Mr. CHEN obtained a bachelor's degree in business management from Sun Yat-sen University in the PRC in June 1995. He also obtained a master's degree in business administration from Cornell University in the U.S. in May 2002.

Independent Non-executive Directors

Mr. SHI Luwen (史錄文) ("Mr. SHI"), aged 59, was appointed as our independent Director on 23 March 2021 and re-designated as our independent non-executive Director on 25 March 2022. He is responsible for supervising and providing independent advice on the operations and management of our Group. Mr. SHI has over 35 years of experience in the pharmaceutical industry. Prior to joining our Group, since July 1987, he has been working at the School of Pharmaceutical Sciences of Peking University (北京大學藥學院) with his latest position as a professor in pharmaceutical administration and clinical pharmacy. Since 2002, he has been serving as a director of the International Research Centre for Medical Administration of Peking University (北京大學醫藥管理國際研究中心). In November 2010, he was awarded the Xue Muqiao Price Research Award (薛暮橋價格研究獎) by the Price Association of China (中國價格協會). In June 2012, he was awarded the Scientific Chinese Person (2011) (科學中國人(2011)年度人物) by Scientific Chinese Magazine. In December 2018, he was awarded the Most Concerned Medical Reform Experts (2018年度最受關注醫改專家) by Health News (健康報). Mr. SHI obtained a bachelor's degree in chemistry from Peking University Health Science Centre (北京大學醫學部) (formerly known as Peking Medical University (北京醫科大學)) in the PRC in July 1987. He also obtained a master's degree in health professions education from the University of Illinois in the U.S. in July 1992. He obtained an independent director qualification certificate from the SSE in January 2016.

As at the date of this report, Mr. SHI holds or held directorships in the following listed companies in the past three years:

Name of listed Company	Team	Position
Hospital Corporation of China Limited (弘和仁愛醫療集團有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 3869)	December 2016 to present	Independent non-executive director
China Meheco Group Co., Ltd (中國醫藥健康產業股份有限公司), a company listed on the SSE (stock code: 600056)	December 2015 to December 2021	Independent director
Zhejiang CONBA Pharmaceutical Co., Ltd (浙江康恩貝製藥股份有限公司), a company listed on the SSE (stock code: 600572)	May 2017 to July 2020	Director

From December 2015 to December 2021, he served as an independent director of China Meheco Group Co., Ltd (中國醫藥健康產業股份有限公司), a company principally engaged in distribution of pharmaceutical and health care products in the PRC and whose shares are listed on the SSE (stock code: 600056), where he was primarily responsible for providing independent advice to the Company. From May 2017 to July 2020, he served as a director of Zhejiang CONBA Pharmaceutical Co., Ltd (浙江康恩貝製藥股份有限公司), a company principally engaged in the R&D, manufacture and distribution of traditional Chinese medicines, modern phytomedicines and chemical drugs in the PRC and whose shares are listed on the SSE (stock code: 600572), where he was primarily responsible for providing independent advice to the Company. Since December 2016, Mr. SHI has served as an independent non-executive director of Hospital Corporation of China Limited (弘和仁愛醫療集團有限公司), a company principally engaged in operation and management of hospitals and whose shares are listed on the Stock Exchange (stock code: 3869), where he has been primarily responsible for providing independent opinion and judgment to the board. Since June 2020, he has been serving as an independent non-executive director of Dragon Laboratory Instruments Limited (大龍興創實驗儀器(北京)股份公司), a company principally engaged in manufacturing laboratory instruments in the PRC, where he is primarily responsible for providing independent advice to the Company.

Mr. DAI Jixiong (戴繼雄) ("Mr. DAI"), aged 64, was appointed as our independent Director on 23 March 2021 and re-designated as our independent non-executive Director on 25 March 2022. He is responsible for supervising and providing independent advice on the operations and management of our Group. Mr. DAI has over 31 years of experience in accounting and audit. Prior to joining our Group, from January 1986 to October 2004, he served in various positions such as deputy supervisor of the research office, associate professor and postgraduate tutor at Shanghai University of Finance and Economics. From May 2006 to December 2013, he last served as the deputy financial controller and general manager of the finance department at Donghao Lansheng (Group) Co., Ltd. (東浩蘭生(集團)有限公司) (formerly known as Shanghai Lansheng (Group) Corporation (上海蘭生(集團)有限公司)), a state-owned company mainly engaged in international trade in the PRC, where he was primarily responsible for financial and accounting management. From December 2013 to June 2019, he served in various positions such as deputy general manager and chief financial officer at Shanghai Minmetals Development Ltd (上海五金礦產發展有限公司), a company principally engaged in import and export trade in the PRC, where he was primarily responsible for formulating the Company's accounting, audit, financial management and risk management and controls. Mr. DAI obtained a bachelor's degree in economics from Shanghai University of Finance and Economics (previously known as Shanghai Institute of Finance and Economics) in the PRC in July 1983. He also obtained a master's degree in economics from Shanghai University of Finance and Economics in the PRC in March 1986. He has been a member of Shanghai Institute of Certified Public Accountants since December 2009. He obtained an independent director qualification certificate from the SSE in October 2014. He has obtained a senior accountant (正高級會計師) qualification issued by Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) since September 2017. He has been awarded as a Shanghai Outstanding Accountant (上海市先進會計工作者) by Shanghai Municipal Finance Bureau (上海市財政局) in August 2009.

As at the date of this report, Mr. DAI holds or held directorships in the following listed companies in the past three years:

Name of listed Company	Team	Position
Jinzhou Jixiang Molybdenum Co Ltd. (錦州吉翔鉬業股份有限公司), a company listed on the SSE (stock code: 603399)	February 2022 to present	Independent director
Shanghai Anlogic Infotech Co., Ltd (上海安路信息科技股份有限公司), a company listed on the SSE (stock code: 688107)	December 2020 to present	Independent director
Bestechnic (shanghai) Co., Ltd (恒玄科技(上海)股份有限公司), a company listed on the SSE (stock code: 688608)	October 2019 to present	Independent director

Since October 2019, Mr. DAI has been serving as an independent director of Bestechnic (shanghai) Co., Ltd (恒玄科技(上海)股份有限公司), a company principally engaged in developing, manufacturing and selling intelligent audio system on chip (SoC) products whose shares are listed on the SSE (stock code: 688608). Since December 2020, he has been serving as an independent director of Shanghai Anlogic Infotech Co., Ltd (上海安路信息科技股份有限公司), a company principally engaged in the R&D, design, and sales of integrated circuits whose shares are listed on the SSE (stock code: 688107). Since February 2022, he has also been serving as an independent director of Jinzhou Jixiang Molybdenum Co Ltd. (錦州吉翔鉬業股份有限公司), a company principally engaged in the production, processing and sales of molybdenum products whose shares are listed on the SSE (stock code: 603399).

Dr. YU Jialin (余家林) ("Dr. YU"), aged 46, was appointed as our independent non-executive Director on 2 December 2022. He is responsible for supervising and providing independent advice on operations and management of our Group. Dr. YU has over 18 years of experience in the finance industry. Prior to joining our Group, from July 2004 to 2012, he held teaching positions at the Graduate School of Business at Columbia University in the U.S., with his last position being an associate professor in finance. From February 2015 to June 2015, he served as a visiting associate professor at Princeton University in the U.S. Since October 2012, he has served/been serving in various roles at Hong Kong University of Science and Technology ("HKUST"). Since October 2012 and January 2019, he has been serving as an associate professor of Department of Finance and the academic director of the HKUSTNYU Stern Master of Science in Global Finance Program, respectively, at HKUST. From January 2017 to June 2018, he also served as the academic director of Master of Science in Investment Management/Financial Analysis Program.

Dr. YU obtained a bachelor's degree in economics from Fudan University (復旦大學) in the PRC in July 1998. He also obtained a master's degree in economics from University of Iowa in the U.S. in July 2000 and a doctor's degree in economics from Princeton University in the U.S. in April 2005.

In October 2013, Dr. YU's research article "The Chinese Warrants Bubble"[1] was cited by the Scientific Background of the Nobel Prize in Economic Sciences compiled by the Economic Sciences Prize Committee of the Royal Swedish Academy of Sciences. In November 2014, he was awarded the Best Paper Award for The 2014 International Conference on Corporate Finance and Capital Market by the Academy of Financial Research of Zhejiang University. In August 2014, he was awarded the honour in MBA teaching by HKUST. In May 2015, he was awarded the 1st Sun Yefang Financial Innovation Paper Award by the Sun Yefang Fiscal Science Foundation. In 2016 and May 2022, he was recognized as a finalist of HKUST Franklin Prize for Teaching Excellence and the Recognition of Excellent Teaching Performance, respectively, by HKUST.

Note:

1. Xiong, W., and J. Yu (2011), "The Chinese Warrants Bubble," *American Economic Review* 101, 2723-2753.

SUPERVISORS

Ms. ZHANG Xiaomei (張曉玫) ("Ms. ZHANG"), aged 52, was appointed as our Supervisor and chairlady of our supervisory committee on 23 March 2021. She is responsible for supervising the overall operation of the supervisory committee, our Board, senior management and the financial management of our Group. Ms. ZHANG has over 28 years of experience in the accounting and audit industry. Prior to joining our Group, from April 1994 to June 2009, she last served as the chief accountant of a subsidiary of Yantai Yuancheng Enterprise Co., Ltd (煙台園城企業股份有限公司) (formerly known as Yantai Hualian Development Group (煙台華聯發展集團)), a company principally engaged in the retail industry in the PRC and whose shares are listed on the SSE (stock code: 600766), where she was primarily responsible for overseeing the Company's auditing and financial management. Since July 2009, Ms. ZHANG has served as a financial controller of Luye Investment Group Co., Ltd. (綠葉投資集團有限公司), where she is primarily responsible for formulating and implementing the Company's auditing and financial management. Ms. ZHANG graduated with a bachelor's qualification in accounting from Shandong University of Finance and Economics (山東財經大學) (formerly known as Shandong Institute of Economics (山東經濟學院)) in July 2004. She obtained an accountant (會計師) qualification issued by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 1997, chief financial officer certificate (財務總監證書) issued by China Enterprise Confederation (中國企業聯合會) in March 2006 and chief financial officer certificate (財務總監(CFO)崗位證書) from China Certification Centre of University of Cambridge Vocational/Professional Qualification (劍橋大學職業/專業資格中國認證中心) in September 2010. She has also obtained the Certified Tax Planner (註冊高級納稅籌劃師) qualification issued by The Educational Specialist Committee of China Science and Technology Institute Centre (中國科學技術協會教育專家委員會) in October 2012, senior financial management technician of CIE professional leadership (CIE職業領導之財務管理高級技師) from the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) in November 2013 and senior management accountant (管理會計師) qualification certified by Beijing National Accounting Institute (北京國家會計學院) in August 2018.

Ms. NING Xia (寧夏) ("Ms. NING"), aged 34, was appointed as our Supervisor on 23 March 2021. Ms. NING joined our Group in October 2020 and is our human resources supervisor. She is responsible for supervising and providing independent advice to the Board. Ms. NING has over 12 years of experience in the pharmaceutical industry. Prior to joining our Group, from January 2011 to July 2011, she served as a manufacturing technologist of Shanghai Xinyi Pharmaceutical Co., Ltd. (上海信誼藥廠有限公司), a pharmaceutical company in the PRC, where she was primarily responsible for drug production and manufacturing. From October 2011 to February 2012, she served as a quality auditor at Nanjing Luye Sike Pharmaceutical Co., Ltd. (南京綠葉思科藥業有限公司), a company principally engaged in the R&D, production and sales of cancer drugs in the PRC, where she was primarily responsible for supervising and managing workshop production and quality control. From March 2012 to July 2018, she last served as a human resources business partner (HBRP) manager of Nanjing Sanhome Pharmaceutical Limited Company (南京聖和藥業股份有限公司), a pharmaceutical company in the PRC. From August 2018 to June 2019, she served in the human resources department of Realcan Pharmaceutical Co., Ltd. (瑞康醫藥股份有限公司), a company principally engaged in wholesale and distribution of pharmaceutical products in the PRC. From July 2019 to September 2020, she served as a human resources business partner at Yantai Rongchang Pharmaceuticals, Ltd. (煙台榮昌製藥股份有限公司), a company principally engaged in the R&D, manufacturing and sales of small molecule and biological drugs in the PRC, where she was primarily responsible for management of human resources in the sales department. Ms. NING obtained a bachelor's degree in pharmacy from Shenyang Pharmaceutical University (瀋陽藥科大學) in the PRC in July 2010. She obtained an assistant engineer (助理工程師) certification issued by Nanjing Leader Group Office for Professional Qualifications (南京市職稱(職業資格)工作領導小組辦公室) in July 2012 and Level 3 Enterprise Human Resource Manager (企業人力資源管理師(三級)) by the Occupational Skills Testing Authority of the Ministry of Human Resources and Social Security of PRC (人社部職業技能鑒定中心) in June 2014.

Ms. LIU Xiangjie (劉祥杰) ("Ms. LIU"), aged 50, was appointed as our Supervisor on 23 March 2021. She is responsible for supervising and providing independent advice to the Board. Ms. LIU has over 28 years of experience in the finance and accounting industry. Prior to joining our Group, since August 1994, she served in various positions in the Luye Group with her latest position as the financial director of Shandong Luye Pharmaceutical Co., Ltd. (山東綠葉製藥有限公司) ("Shandong Luye"), where she is primarily responsible for overseeing and supervising the financial management of the Company. Ms. LIU obtained a vocational secondary school degree in industrial enterprise management from Yantai Industrial School (山東省煙台工業學校) in the PRC in July 1994. She also graduated from Shandong Cadres Correspondence University (山東幹部函授大學) in the PRC with a junior college diploma in finance and accounting in June 1997. She has obtained an Intermediate Accountant (中級會計師) certification issued by the Human Resources and Social Security Department of Shandong Province (山東省人力資源和社會保障廳) since December 2015 and a certified management accountant (註冊管理會計師) certification by the Institute of Management Accountants since July 2018. She has also obtained an International Certified Public Accountants qualification certified by American Association of Chartered Accountants since September 2020 and a Senior Management Accountant (高級管理會計師) qualification certified by Beijing National Accounting Institute (北京國家會計學院) since October 2020.

SENIOR MANAGEMENT

Our senior management comprises executive Directors and the following persons:

Mr. WANG Shenghan (王盛翰) (formerly known as Wang Dongdong (王冬冬)) ("Mr. WANG"), aged 43, joined our Group in September 2020 as the chief financial officer of our Company. He is responsible for overseeing, advising and implementing comprehensive financial and strategies of our Group. He joined the Luye Group in December 2009. From December 2009 to August 2020, he served as the assistant to the president and later the director of investment and business development of Luye Pharma, where he was responsible for securities affairs, investment and capital operations. Mr. WANG has over 21 years of experience in accounting and corporate finance. Prior to joining our Group, from July 2001 to May 2004, he served as an audit manager at Tianyuanquan Accounting Firm (Special General Partnership) (天圓全會計事務所（特殊普通合伙）) (formerly known as Beijing Tianyuanquan Accounting Firm (Special General Partnership) (北京天圜全會計事務所（特殊普通合伙）), whose predecessor is Shandong Qianju Accounting Firm (山東乾聚會計師事務所), an accounting firm in the PRC. From June 2004 to July 2008, he last served as a deputy general accountant at Yantai Yuancheng Enterprise Co., Ltd (煙台園城企業股份有限公司), a company principally engaged in the retail industry in the PRC and whose shares are listed on the SSE (stock code: 600766), where he was primarily responsible for managing the annual accounting and auditing of the Company. From October 2008 to November 2009, he served as the financial controller and secretary of the board at Qingdao Tianren Huanjing Co., Ltd (青島天人環境股份有限公司), a company mainly engaged in biomass energy development, environmental protection and new energy projects in the PRC, where he was primarily responsible for the listing application, investment and capital operations. Since November 2016, he has been serving as a director of Shandong Luye Natural Medicine R&D Co., Ltd. (山東綠葉天然藥物研究開發有限公司), a company principally engaged in the R&D in natural medicine in the PRC. Since January 2021, he has been serving as a director of Yantai Luye Hospital Management Co., Ltd. (煙台綠葉醫院管理有限公司), a company principally engaged in biomedicine healthcare, marine biology and bio-agriculture investments in the PRC, where he is primarily responsible for providing strategic development, finance and investment advice. Mr. WANG obtained a bachelor's degree of economics in finance from Shandong University of Finance and Economics (山東財經大學) (formerly known as Shandong Institute of Economics (山東經濟學院)) in the PRC in July 2001. He also obtained a master's degree in business administration from Ocean University of China (中國海洋大學) in the PRC in January 2010. He obtained a certified public accountant qualification issued by Shandong Institute of Certified Public Accountants (山東省註冊會計師協會) in the PRC in January 2008.

Mr. CHI Guangming (池廣明) ("Mr. CHI"), aged 58, joined our Group as the vice president of the business operations centre of our Company in April 2021. He is responsible for formulating sales strategies and the operational management for marketing of our Group. He has over 32 years of experience in the pharmaceutical industry. Prior to joining our Group, from September 1990 to March 1997, Mr. CHI served as an attending physician in internal medicine at Taipusi Hospital (太僕寺旗醫院), a hospital in Inner Mongolia in the PRC. From April 1997 to December 2007, he last served as a regional manager at Shandong Luye, where he was primarily responsible for managing the sales and marketing in northern China. From January 2008 to March 2021, he served as a sales director of Nanjing Luye, where he was primarily responsible for supervising and managing the sales of Nanjing Luye. Mr. CHI obtained a bachelor's degree in medicine from College of Traditional Mongolian Medicine of Inner Mongolia Minzu University (內蒙古民族大學蒙醫藥學院) (formerly known as Inner Mongolia College of Traditional Mongolian Medicine (內蒙古蒙醫學院)) in the PRC in July 1990. He also graduated from an executive master's degree in business administration program from Renmin University of China (中國人民大學) in the PRC in January 2003. He was qualified as an associate chief physician (副主任醫師) specializing in internal medicine by the Human Resources and Social Security Department of Inner Mongolia Autonomous Region (內蒙古自治區人力資源和社會保障廳) (formerly known as Personnel Department of Inner Mongolia Autonomous Region (內蒙古自治區人事廳)) in July 2007.

Mr. LU Jun (盧軍) ("Mr. LU"), aged 57, joined our Group in March 2015 and was appointed as our senior vice president and head of biotechnology engineering centre and quality department in January 2021. He is responsible for overseeing and managing the operations of our Company's biotechnology engineering centre and quality department. He has over 21 years of experience in the pharmaceutical industry. Prior to joining our Group, Mr. LU served as a supervisor of the process science department at Eli Lilly and Company for over five years, a company principally engaged in drug manufacturing in the U.S., where he was primarily responsible for the R&D and industrial purification processes for several marketed drugs. From March 2004 to June 2006, he served as a senior process engineer at Cubist Pharmaceuticals Inc., a company principally engaged in R&D and commercializing biopharmaceutical products, where he was primarily responsible for managing the R&D for industrial design and commercialization production processes for new drugs. From July 2006 to March 2013, he served as a senior manager of process development at Ipsen Bioscience, Inc. (formerly known as Biomeasure Inc.), a company principally engaged in R&D of engineered peptides and proteins for human therapeutic in the U.S., where he was primarily responsible for managing the process characterization and validation, GMP commercial production support and BLA for a new autonomous bioengineered drug. From April 2013 to March 2015, he served as an associate director at Momenta Pharmaceutical Inc. in the U.S., a company principally engaged in discovering and developing novel therapies for immune-mediated diseases. Mr. LU obtained a bachelor's degree in cell biology and genetics from Peking University in the PRC in July 1988. He further obtained a master's degree in biochemistry and molecular biology from University of Southern California in the U.S. in December 1997 and a master's degree in business administration from University of Chicago in the U.S. in June 2003.

Mr. SONG Deyong (宋德勇) ("Mr. SONG"), aged 40, joined our Group in December 2015 and was appointed as our senior head of biologics discovery department in January 2022. He is responsible for managing our Company's biopharmaceutical target research, projects selection, biopharmaceutical molecules discovery and lead molecules confirmation. He has over 13 years of experience in the biopharmaceutical industry. Prior to joining our Group, from April 2009 to December 2009, Mr. SONG served as a research staff at Beijing ABT Gene Engineering Technology Co., Ltd (北京安波特基因工程技術有限公司), a company principally engaged in the R&D of genetic engineering antibody drugs and technical services in the PRC, where he was primarily responsible for R&D of genetic engineering antibody drugs and providing genetic engineering technical services. From December 2009 to November 2015, he last served as a supervisor at Sinocelltech Group Limited (北京神州細胞生物技術集團股份公司) (formerly known as Beijing Sino Biotechnology Co., Ltd (北京義翹神州生物技術有限公司)), a company principally engaged in developing and manufacturing recombinant proteins, monoclonal antibodies, and vaccines in the PRC, where he was primarily responsible for optimizing antibody discovery technologies, screening mouse and rabbit monoclonal antibodies and conducting biological evaluation of monoclonal antibodies. Mr. SONG obtained a bachelor's degree in biology and a master's degree in microbiology from Shandong University (山東大學) in the PRC in July 2005 and June 2008, respectively.

REPORT OF DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

CORPORATE INFORMATION

The Company was established in the PRC on 30 December 2013 and was converted into a joint stock company with limited liability under the PRC Company Law with effect from 29 March 2021. The Company's H shares have been listed on the Main Board of the Stock Exchange since 30 December 2022.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to develop, manufacture and commercialise high quality biologics across various therapeutic areas in the PRC and overseas. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the consolidated financial statements of this report.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the Group's business during the year ended 31 December 2022, including an analysis of which using financial key performance indicators, and the outlook of the Group's business are provided in the section headed "Management Discussion and Analysis" of this report, which discussion forms part of this "Report of Directors".

RESULTS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 70 of this report.

DIVIDEND POLICY AND FINAL DIVIDEND

No dividends were declared for the year ended 31 December 2022.

It is the policy of the Board, in considering payment of dividends, to allow Shareholders to share the Company's profits whilst retaining adequate reserves for the Group's future growth.

The Board shall consider the following factors before declaring or recommending dividends:

- the Company's earnings and financial position;
- the Group's working capital, operating and capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic condition, business cycle of the Group's business and other internal or external factors that may affect the business or financial performance and position of the Company; and
- other factors that the Board considers relevant.

The payment of dividends is also subject to applicable laws and regulations including the laws and regulations of the PRC and the articles of association of the Company. The Board will continually review the dividend policy from time to time and there is no assurance that dividends will be paid in any particular amount for any given period.

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last three financial years are set out on page 7 of this report. This summary does not form part of the audited consolidated financial statements.

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Investment Risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of the Group would be submitted to the Board.

Manpower and Retention Risk

The Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will provide attractive remuneration package to suitable candidates and personnel.

Financial Risk

The Group also faces financial risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of these financial risks are set out in note 33 to the consolidated financial statements of the Group.

In light of the above risks relevant to and potentially affecting the Group's business, the Group has certain risk management procedures with a view to minimise the risks and to manage, but not eliminate, the risk of failure to fulfil business objectives. Please refer to the section headed "Risk Management and Internal Control" in the Corporate Governance Report for policies concerning the Group's risk management system.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Our Group is committed to achieving environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group's business is subject to national, provincial and local environmental laws and regulations of the PRC. During the year ended 31 December 2022, so far as our Directors are aware, there were no material breach of applicable environmental laws and regulations of the PRC that have a significant adverse impact on the business and operations of our Group.

Our Group also encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group endeavours to comply with the relevant laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, waste reduction and energy saving. Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs – reduce, recycle and reuse and enhance environmental sustainability.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Listing Rules, the Company's Environmental, Social and Governance Report ("ESG Report") will be available on its website at the same time as from the publication of this report.

The 2022 ESG Report is published in electronic form only at the same time on the websites of the Company at www.boan-bio.com under the section "Investors" and the Stock Exchange at www.hkexnews.hk. If you wish to receive a printed copy of the 2022 ESG Report, you may submit your request to the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited by post at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Being people-oriented, our Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

Our Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

Our Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 73.6% of the total sales for the year ended 31 December 2022 and sales to the largest customer included therein amounted to 37.1% of the total sales for the year.

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

During the year ended 31 December 2022, the percentage of purchases attributable to the Group's five largest suppliers did not exceed 30%.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

On 30 December 2022, the Company allotted and issued 10,694,800 H Shares at the price of HK$19.8 per H Share in connection with the Global Offering. The Company received approximately RMB152.8 million in net proceeds from the Listing.

Details of movements in the share capital of the Company during the year ended 31 December 2022 are set out in note 25 to the consolidated financial statements in this annual report.

DISTRIBUTABLE RESERVE

As at 31 December 2022, the Company did not have any distributable reserve. Details of movements in the reserves of the Group during the year are set out on pages 73 to 74 in the consolidated statement of changes in equity of this report and in note 26 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans of the Group as at 31 December 2022 are set out in note 22 to the consolidated financial statements in this report.

DONATION

The Company's charitable and other donations amounted to RMB2.3 million for the year ended 31 December 2022.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company completed the global offering of its H Shares on 30 December 2022. The net proceeds from the Global Offering amounted to approximately RMB152.8 million after deducting listing expenses paid or payable as of 31 December 2022. The Company intends to use the net proceeds from the Global Offering according to the purposes and proportions disclosed in the prospectus of the Company dated 19 December 2022 (the "Prospectus"). As at 31 December 2022, the usage of the proceeds from the Global Offering was as follows:

Intended use of proceeds	Approximate allocation of net proceeds as previously disclosed (HKD million)	Approximate utilisation of proceeds from the Listing Date to 31 December 2022 (HKD million)	Approximate amount of net proceeds unutilised as a 31 December 2022 (HKD million)	Expected timeline for utilisation of unutilised proceeds
Research and development of the Group's Core Products	91.0	0	91.0	By 31 December 2024
Research and development of other products in the Group's pipeline	48.0	0	48.0	By 31 December 2024
Commercialization purposes	9.3	0	9.3	By 31 December 2024
Working capital and other general corporate purposes	4.5	0	4.5	By 31 December 2024
Total	152.8	0	152.8	

The balance of the proceeds is deposited with licensed banks in accounts held by the Group.

Save as disclosed above, the Company has not conducted any equity fund-raising activities during the Reporting Period.

DIRECTORS

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

Executive Directors:

Ms. JIANG Hua (姜華) *(Chief Executive Officer and Chairlady of our Board)*
Dr. DOU Changlin (竇昌林) *(President of R&D and Chief Operating Officer)*

Non-executive Directors:

Mr. LIU Yuanchong (劉元沖)
Ms. LI Li (李莉)
Mr. CHEN Jie (陳杰)
Dr. LI Youxin *(passed away on 12 February 2023)*

Independent Non-executive Directors:

Mr. SHI Luwen (史錄文)
Mr. DAI Jixiong (戴繼雄)
Dr. YU Jialin (余家林) *(appointed on 2 December 2022)*

BOARD OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Group are set out on pages 26 to 35 of this report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors, namely Ms. JIANG Hua and Dr. DOU Changlin, has entered into a service contract with the Company for a term of three years commencing from 25 March 2022, and may be terminated in accordance with the respective terms of the service contracts.

Each of the non-executive Directors, namely Mr. LIU Yuanchong, Ms. LI Li and Mr. CHEN Jie, has entered into an appointment letter with the Company for a term of three years commencing from 25 March 2022, and may be terminated in accordance with the respective terms of the appointment letters.

The independent non-executive Directors, Mr. SHI Luwen and Mr. DAI Jixiong have entered into an appointment letter with the Company for a term of three years commencing from 25 March 2022, and may be terminated in accordance with the respective terms of the appointment letters.

Dr. YU Jialin, an independent non-executive Director, has entered into an appointment letter with the Company for a term of three years commencing from 2 December 2022, which may be terminated in accordance with the terms of the appointment letter.

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

INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

As at 31 December 2022 or at any time during the year, other than those transactions disclosed in note 30 to the consolidated financial statements in this report, (a) no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, Company's subsidiaries, fellow subsidiaries or its parent companies was a party and in which a Director and/or Supervisor or his or her connected entity had a material interest, whether directly or indirectly, subsisted; and (b) there is no contract of significance (i) between the Company or its subsidiaries and Company's controlling shareholder or its subsidiaries; and (ii) for the provision of services to the Company or any of its subsidiaries by Company's controlling shareholder or its subsidiaries.

MANAGEMENT CONTRACTS

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

EQUITY-LINKED AGREEMENTS

Save as disclosed in this report, no equity-linked agreement that will or may result in the Company issuing Shares nor require the Company to enter into an agreement that will or may result in the Company issuing Shares was entered into by the Company during the year ended 31 December 2022 or subsisted at the end of the year.

EMOLUMENT POLICY

The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. In addition, social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations. For employee retirement benefits, please refer to note 2.4 to the consolidated financial statements in this report. A remuneration committee of the Board was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. Our Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Company's subsidiaries established and operating in mainland China are required to participate in central pension schemes operated by the local municipal government and the central government, respectively.

REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

SHARE SCHEME

During the year ended 31 December 2022 and up to the date of this report, the Group has not adopted any share scheme as defined under Chapter 17 of the Listing Rules.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND SUPERVISORS

Save as disclosed in the section headed "Directors, Supervisors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director and Supervisors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules from the Listing Date to 31 December 2022.

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

As at 31 December 2022, the interests or short positions of the Directors, Supervisors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), are as follows:

(i) Interest in the Company

Name	Nature of Interest	Class of Shares	Number of Shares	Approximate percentage holding in the total issued share capital
JIANG Hua	Interest in a controlled corporation[1, 2, 3]	H Shares	9,000,000 (L)	1.77%
DOU Changlin	Interest in a controlled corporation[1, 2, 3]	H Shares	6,800,000 (L)	1.34%
LIU Yuanchong	Interest in a controlled corporation[1, 2, 3]	H Shares	4,000,000 (L)	0.79%
LI Li	Interest in a controlled corporation[1, 2, 3]	H Shares	47,638,668 (L)	9.35%
LI Youxin	Interest in a controlled corporation[1, 2, 3, 4]	H Shares	1,500,000 (L)	0.29%

Remark: The Letter "L" denotes long position in such securities and "S" denotes short position in such securities.

Notes:

1. Yantai Bolian Investment Center Limited Partnership (煙台博聯投資中心（有限合伙）) ("Yantai Bolian") held 21,415,548 Shares. Ms. LI is the general partner of Yantai Bolian and is therefore deemed to be interested in the Shares held by Yantai Bolian. Pursuant to the partnership agreement among its partners, Yantai Bolian held 4,720,000 and 6,800,000 Shares on behalf of Ms. JIANG, Dr. DOU and Dr. LI, respectively, who are deemed to be interested to these respective Shares held by Yantai Bolian.

2. Yantai Bofa Investment Center Limited Partnership (煙台博發投資中心（有限合伙）) ("Yantai Bofa") held 11,268,488 Shares. Ms. LI is the general partner of Yantai Bofa and is therefore deemed to be interested in the Shares held by Yantai Bofa. Pursuant to the partnership agreement among its partners, Yantai Bofa held 1,800,000 and 1,000,000 Shares on behalf of Ms. JIANG and Mr. LIU, respectively, who are deemed to be interested to these respective Shares held by Yantai Bofa.

3. Yantai Bosheng Investment Center Limited Partnership (煙台博晟投資中心（有限合伙）) ("Yantai Bosheng") holds 14,954,632 Shares. Ms. LI is the general partner of Yantai Bosheng and is therefore deemed to be interested in the Shares held by Yantai Bosheng. Pursuant to the partnership agreement among its partners, Yantai Bosheng held 2,480,000 and 3,000,000 Shares on behalf of Ms. JIANG and Mr. LIU, respectively, who are deemed to be interested to these respective Shares held by Yantai Bosheng.

4. Dr. LI Youxin has passed away on 12 February 2023.

Save as disclosed above, as at 31 December 2022, none of our Directors, Supervisors and chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate for the year ended 31 December 2022.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, to the best of the Directors' knowledge, the following persons (other than the Directors, Supervisors and chief executives of the Company) had or deemed or taken to have an interests and/or short position in the Shares or the underlying Shares which fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares	Approximate percentage of shareholding in the total issued share capital
Shandong Luye	Beneficial owner[1]	H Shares	360,596,456 (L)	70.81%
Yantai Luye Pharmaceutical Holdings Co., Ltd. (煙台綠葉醫藥控股（集團）有限公司) ("Yantai Luye")	Interest in a controlled corporation[1]	H Shares	360,596,456 (L)	70.81%
Luye Pharma Hong Kong Limited ("Luye HK")	Interest in a controlled corporation[1]	H Shares	360,596,456 (L)	70.81%
AsiaPharm Investments Ltd. ("AsiaPharm")	Interest in a controlled corporation[1]	H Shares	360,596,456 (L)	70.81%
Luye Pharma	Interest in a controlled corporation[1]	H Shares	360,596,456 (L)	70.81%
LuYe Pharmaceutical Investment Co., Ltd. ("LuYe Investment")	Interest in a controlled corporation[2]	H Shares	360,596,456 (L)	70.81%
LuYe Pharmaceutical International Co., Ltd. ("LuYe International")	Interest in a controlled corporation[2]	H Shares	360,596,456 (L)	70.81%
Luye Pharma Holdings Limited ("Luye Holdings")	Interest in a controlled corporation[2]	H Shares	360,596,456 (L)	70.81%
Luye Life Sciences Group Ltd. ("Luye Life Sciences")	Interest in a controlled corporation[2]	H Shares	360,596,456 (L)	70.81%
Nelumbo Investments Limited ("Nelumbo")	Interest in a controlled corporation[2]	H Shares	360,596,456 (L)	70.81%
Ginkgo (PTC) Limited ("Gingko")	Trustee[2]	H Shares	360,596,456 (L)	70.81%
Shorea LBG ("Shorea")	Interest in a controlled corporation[2]	H Shares	360,596,456 (L)	70.81%
Mr. LIU Dian Bo	Founder of a discretionary trust[2]	H Shares	360,596,456 (L)	70.81%

Remark: The Letter "L" denotes long position in such securities and "S" denotes short position in such securities.

Notes:

1. Shandong Luye is wholly owned by Yantai Luye, which in turn is wholly owned by Luye HK. Luye HK is in turn wholly owned by AsiaPharm and AsiaPharm is wholly owned by Luye Pharma. Accordingly, each of Luye Pharma, AsiaPharm, Luye HK and Yantai Luye is deemed under the SFO to be interested in the Shares held by Shandong Luye.

2. Luye Pharma is beneficially owned as to approximately 35.42% by LuYe Investment. LuYe Investment is indirectly wholly-owned by Luye Life Sciences, through LuYe International and Luye Holdings. Luye Life Sciences is owned as to 70% by Nelumbo. The entire issued share capital of Nelumbo is held by Ginkgo as trustee of the family trust of Mr. LIU. Ginkgo is wholly-owned by Shorea whose sole shareholder is Mr. LIU. Mr. LIU is a director of Luye Pharma. For the avoidance of doubt, LuYe Investment, LuYe International, Luye Holdings, Luye Life Sciences, Nelumbo, Ginkgo, Shorea and Mr. LIU are not substantial shareholders of the Company.

Save as disclosed above, as at 31 December 2022, the Directors have not been aware of any person who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries from the Listing Date up to 31 December 2022.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders of the Company by reason of their holding of the Shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company, or the laws of the PRC, which would oblige the Company to offer new shares of the Company on a pro-rata basis to its existing shareholders.

PERMITTED INDEMNITY PROVISION

According to the articles of association of the Company, among others, the Directors acting in relation to any of the affairs of the Company may be entitled to be indemnified and secured harmless out of assets and profits of the Company from and against all, among others, actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain. The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

DIRECTOR'S AND CONTROLLING SHAREHOLDER'S INTEREST IN COMPETING BUSINESS

None of the Directors held any interests in any business that compete directly against the Company or any of its jointly controlled entities and subsidiaries during the year ended 31 December 2022.

CONNECTED TRANSACTION

A summary of the related party transactions entered into by the Group during the year ended 31 December 2022 is contained in note 30 to the consolidated financial statements in this report. None of the transactions summarised in such note constitute a non-exempt "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules.

MATERIAL EVENTS AFTER THE END OF THE REPORTING PERIOD

After 31 December 2022 and up to the date of this report, to the best of the Directors' knowledge, there was no event occurred that has significantly affected the Group.

AUDIT COMMITTEE

The audit committee (the "Audit Committee") has reviewed together with the management the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2022.

CODE OF CONDUCT REGARDING DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. 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 from the Listing Date to 31 December 2022.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 49 to 64 of this annual report.

CLOSURE OF REGISTER OF SHAREHOLDERS

The Company's annual general meeting ("AGM") will be held on Monday, 29 May 2023. For determining the entitlement to attend and vote at the AGM, the register of shareholders of the Company will be closed from Tuesday, 23 May 2023 to Monday, 29 May 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's H Shares share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 22 May 2023.

SUFFICIENCY OF PUBLIC FLOAT

The Stock Exchange has granted the Company a waiver from strict compliance with the public float requirements under Rule 8.08(1)(a) of the Listing Rules. Under the conditions for such waiver as described in the Prospectus, the minimum public float of the Company should be at the highest of (a) 18.14% of the Company's total issued share capital; (b) such percentage of Shares held by the public immediately after the completion of the Global Offering (assuming that the over-allotment option is not exercised); and (c) such percentage of Shares held by the public after the exercise of the over-allotment option, provided that the highest of (a), (b) and (c) above is below the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Listing Rules. Based on the information that is publicly available to the Company and to the knowledge of the Directors, there was a sufficient public float of the issued shares of the Company as described above as at the date of this report.

AUDITOR

Ernst & Young has been appointed as auditor of the Company for the year ended 31 December 2022.

Ernst & Young shall retire at the AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as independent auditor of the Company will be proposed at the AGM.

On behalf of the Board
JIANG Hua
Chief Executive Officer and Chairlady

Yantai, Shandong, The People's Republic of China, 27 March 2023

CORPORATE GOVERNANCE CULTURE AND VALUES

A healthy corporate culture across the Group is integral to attaining its vision and strategy. It is the Board's role to foster a corporate culture with the following core principles and to ensure that the Company's vision, values and business strategies are aligned to it.

1. Core values

Integrity, cooperation, innovation and excellence is core vales of the Group. Integrity is the foundation of the Company's life, cooperation is the guarantee of the team's victory, innovation is the driving force of the Group's development, and excellence is the realm of the Group's pursuit. The Group strives to maintain high standards of business ethics and corporate governance across all our activities and operations. The Directors, management and staff are all required to act lawfully, ethically and responsibly, and the required standards and norms are explicitly set out in the training materials for all new staff and embedded in various policies such as the Group's employee handbook, the anti-corruption policy and the whistleblowing policy of the Group. Trainings are conducted from time to time to reinforce the required standards in respect of core values.

2. Business Philosophy

The Group believes that customer orientation helps the Group to grasp market opportunities, efficient operation enables the Group to stay ahead of the competition, and achievement of employees promotes the Group to develop a long-lasting business. This sets the tone for a strong, productive workforce that attracts, develops, and retains the best talent and produces the highest quality work. Moreover, the Company's strategy in the business development and management seeks to achieve long-term, steady and sustainable growth, while having due considerations from environment, social and governance aspects.

The Company is committed to ensuring that its affairs are conducted in accordance with good corporate governance practices, which seek to ensure that overall business risk of the Group is assessed and managed appropriately and sustainable returns can be delivered to its shareholders. The Corporate Governance Code (the "CG Code") published by the Stock Exchange by sets out the principles of good corporate governance, and the Group manages its corporate affairs (such as its board composition, audit, internal control and risk management) in accordance with such principles. This corporate governance report provides a channel through which shareholders may evaluate how the Group has applied such principles to its business.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

Save for the deviation disclosed in this annual report, in the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code in force from the Listing Date to 31 December 2022.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established five Board committees including the Audit Committee, the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee"), the strategy committee (the "Strategy Committee") and the environmental, social and governance committee (the "ESG Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

As at the date of this annual report, the Board comprises nine members, consisting of two executive Directors, three non-executive Directors and three independent non-executive Directors as set out below:

Executive Directors
Ms. JIANG Hua *(Chief Executive Officer and Chairlady of the Board)*
Dr. DOU Changlin *(Chief Operating Officer and President of R&D)*

Non-executive Directors
Mr. LIU Yuanchong
Ms. LI Li
Mr. CHEN Jie

Independent Non-executive Directors
Mr. SHI Luwen
Mr. DAI Jixiong
Dr. YU Jialin

Dr. LI Youxin was one of the non-executive Directors during the Reporting Period but he passed away on 12 February 2023.

The biographies of the Directors are set out under the section headed "Directors, Supervisors and Senior Management" of this annual report.

During the year ended 31 December 2022, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company also complied Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee.

None of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant status, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

According to C.1.4 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. According to the records kept by the Company, each of the Directors during the Reporting Period, namely, Ms. JIANG Hua, Dr. DOU Changlin, Dr. LI Youxin, Mr. LIU Yuanchong, Ms. LI Li, Mr. CHEN Jie, Mr. SHI Luwen and Mr. DAI Jixiong and Dr. YU Jialin (a) attended seminars and/or trainings that are relevant to the Directors' professional knowledge and skills and in performing their duties and responsibilities as Directors; and (b) read materials that are relevant to the Directors' professional knowledge and skills and in performing their duties and responsibilities as Directors during the year ended 31 December 2022.

Chairman and Chief Executive Officer

As required by code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

Under the current organization structure of the Company, Ms. JIANG Hua is our Chairlady of the Board and the Chief Executive Officer. Although the dual roles of Chairlady and Chief Executive Officer is a deviation from the CG Code, the Board believes that with extensive experience in the pharmaceutical industry, vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals.

Appointment and Re-Election of Directors

Each of the executive Directors and the non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from 25 March 2022 and may be terminated in accordance with the respective terms of the appointment letters.

Mr. SHI Luwen, an independent non-executive Director, has entered into an appointment letter with the Company for a term of three years commencing from 25 March 2022 and may be terminated in accordance with the terms of the appointment letter.

Mr. DAI Jixiong, an independent non-executive Director, has entered into an appointment letter with the Company for a term of three years commencing from 25 March 2022, which may be terminated in accordance with the terms of the appointment letter.

Dr. YU Jialin, an independent non-executive Director, has entered into an appointment letter with the Company for a term of three years commencing from 2 December 2022, which may be terminated in accordance with the terms of the appointment letter.

None of the Directors has a service agreement which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the next following AGM after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

BOARD INDEPENDENCE

The Board reviewed and considered that the following key features or mechanisms under Company's governance structure are effective in ensuring that independent views and inputs are provided to the Board.

Board and committees' structure	• The Company has been steered by a Board comprising a majority of non-executive Directors. The Board comprises two executive Directors, three non-executive Directors and three independent non-executive Directors.
	• Members of the Audit Committee, the Remuneration Committee and the Nomination Committee are independent non-executive Directors, save for Mr. LIU Yuanchong (a non-executive Director) in the case of the Audit Committee.
Independent non-executive Directors' tenure	• The directors' nomination policy of the Company sets a maximum tenure of nine consecutive years for independent non-executive Directors to be eligible for nomination by the Board to stand for re-election by Shareholders.
Independent non-executive Directors' remuneration	• Independent non-executive Directors receive fixed fee(s) for their role as members of the Board and Board committee(s) as appropriate, and have not participated in the share schemes of the Company
Appointment of independent non-executive Directors	• Independent search firm(s) will be engaged to help identify potential candidates for appointment of independent non-executives Directors
	• In assessing suitability of the candidates, the Nomination Committee will review their profiles, including their qualification and time commitment, having regard to the Board's composition, the Directors' skill matrix, the list of selection criteria approved by the Board, its nomination policy and the board diversity policy
Annual review of independent non-executive Directors' independence	• the Board assessed the annual independence confirmation received from each independent non-executives Director, having regard to the criteria under Rule 3.13 of the Main Board Listing Rules.
Conflict management	• the Articles of Association of the Company and internal guidelines of the Company provide guidance to the Directors on avoiding conflicts of interest and on the circumstances under which appropriate action(s) shall be taken by the director in conflict
Professional advice	• To facilitate proper discharge of their duties, all Directors are entitled to seek advice from the Company secretary or the in-house legal team as well as from independent professional advisers at the Company's expense
Board evaluation	• The quality and efficiency of discussions at Board meetings are assessed during the annual evaluation of the Board's performance

Board Meetings

The Company has adopted the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than 14 days will be given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and committee meetings, reasonable notice will generally be given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairlady of the Board prior to the meeting.

Minutes of the Board meetings and committee meetings will be recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

During the year ended 31 December 2022, six Board meetings, and no AGM were held and the attendance of the individual Directors at these meetings is set out in the table below:

Name of Director	Attended/Eligible to attend Board meeting
Ms. JIANG Hua	6/6
Dr. DOU Changlin	6/6
Dr. LI Youxin *(passed away on 12 February 2023)*	6/6
Mr. LIU Yuanchong	6/6
Ms. LI Li	6/6
Mr. CHEN Jie	6/6
Mr. SHI Luwen	6/6
Mr. DAI Jixiong	6/6
Dr. YU Jialin	2/2

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. 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 from the Listing Date to 31 December 2022.

The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors which include:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2022 are set out in note 8 to the consolidated financial statements in this annual report.

The biographies of the senior management are disclosed in the section headed "Directors, Supervisors and Senior Management" in this annual report. Remuneration paid to the top senior management (excluding the Directors) for the year ended 31 December 2022 fell within the following bands as follows:

Remuneration Band	No. of employees
RMB1,000,001 to RMB1,500,000	2
RMB3,000,001 to RMB3,500,000	1
RMB4,500,001 to RMB5,000,000	1

Directors' Liability Insurance

The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee currently comprises two independent non-executive Directors, namely Mr. SHI Luwen (chairperson), and Dr. YU Jialin, and one non-executive Director, Ms. LI Li.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendation to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors. The Nomination Committee adopted certain criteria and procedure in the nomination of new Directors. The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

In assessing the suitability of a proposed candidate before recommending to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies, the Nomination Committee will consider factors including, without limitation, character and integrity of the proposed candidates, qualifications of the proposed candidates including professional qualifications, skills, knowledge and experience, accomplishments and experience of the proposed candidates in the business from time to time, commitment of the proposed candidates in respect of available time and relevant interest, diversity and balance of the Board and such other perspectives appropriate to the Company's business.

The written terms of reference of Nomination Committee are available on the websites of the Stock Exchange and the Company.

As the Company was listed on the Stock Exchange on 30 December 2022, no meeting of the Nomination Committee was held during the Reporting Period.

Nomination Policy

A director nomination policy (the "Nomination Policy") adopted by the Board aims to enhancing transparency and accountability of the nomination process of Directors and enabling the Company to ensure the Board has a balance of skills and experience and diversity of perspectives appropriate to the requirements of the Company's business.

The selection criteria for assessing the suitability of a proposed candidate which shall be taken as reference by the Nomination Committee includes: character and integrity, professional qualifications, skills, knowledge and experience that are relevant to the Company's business and strategy, the potential contribution to the Board from the diversity aspects (including but not limited to age, gender, international background, and professional experience), the candidate's time commitment to the Company, the candidate's service on other boards of directors of the Group or of other companies (whether they are listed or non-listed) and any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and its shareholders. These above selection criteria are not exhaustive or conclusive. The Nomination Committee would consider any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and shareholders of the Company.

For those potential new Director candidates who appear upon first consideration to meet the Board's selection criteria, upon obtaining the required information from the candidate, the Nomination Committee shall convene a meeting to discuss and consider the recommendation of the candidate to the Board for appointment as a Director. The Nomination Committee shall review whether the candidate is qualified to be appointed, elected or re-elected into the Board under the relevant Listing Rules and the policies of the Company.

The Board and the Nomination Committee intend to review the Nomination Policy at least annually and anticipate that modifications may be necessary from time to time as the Company's needs and circumstances evolve, and as applicable if and where the legal obligations or requirements in the Listing Rules or laws of Hong Kong or the People Republic of China, or other regulatory change(s).

Board Diversity Policy

The Company views diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. To that end, the Company has adopted a Board Diversity Policy to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Ultimately, all Board appointments have been based on merit, and candidates were considered against objective criteria, having due regard for the benefits of diversity on the Board.

For the purpose of implementation of the Board Diversity Policy, the measurable objective of at least 2 of members of the Board shall be female were adopted. As at the date of this report, the Board comprises six male Directors and two female Directors, which, in the opinion of the Directors, has achieved the above objective on gender diversity on the Board. To ensure gender diversity of the Board in a long run, the Group will seek to identify and select several female individuals with a diverse range of skills, experience and knowledge in the field of the Group's business from time to time, and maintain a list of such female individuals who possess qualities to become the Board members in order to develop a pipeline of potential successors to the Board to promote gender diversity of the Board.

The workforce of the Group (including its senior management) comprised approximately 38% male employees and 62% female employees as at 31 December 2022. The Company aims to achieve a men-to-women ratio of 45:55 by end of year 2025. Due to the nature of work in the pharmaceutical industry, the Group mainly considers factors such as the candidates' ability and experience, rather than their gender, in recruiting employees.

Remuneration Committee

The Remuneration Committee comprises two independent non-executive Directors, namely Dr. YU Jialin (chairperson), and Mr. DAI Jixiong, and one non-executive Director, Ms. LI Li.

The primary duties of the Remuneration Committee include making recommendations to the Board for approval on the remuneration policy and structure and remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for ensuring that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The written terms of reference of Remuneration Committee are available on the websites of the Stock Exchange and the Company.

As the Company was listed on the Stock Exchange on 30 December 2022, no meeting of the Remuneration Committee was held during the Reporting Period.

Audit Committee

The Audit Committee comprises two independent non-executive Directors, namely Mr. DAI Jixiong (chairperson), and Dr. YU Jialin, and one non-executive Director, Mr. LIU Yuanchong. The main duties of the Audit Committee include the following:

– To review the financial statements and reports before submission to the Board;

– To review and monitor the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standard and discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;

– To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function; and

– To oversee the risk management and internal control systems of the Group, report to the Board on any material issue, and make recommendations to the Board.

The written terms of reference of Audit Committee are available on the websites of the Stock Exchange and the Company.

As the Company was listed on the Stock Exchange on 30 December 2022, no meeting of the Audit Committee was held during the Reporting Period.

There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters.

Strategy Committee

The Strategy Committee comprises two executive Directors, namely Ms. JIANG Hua (chairlady), and Dr. DOU Changlin, and one independent non-executive Director, Mr. SHI Luwen. 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.

The written terms of reference of the Strategy Committee are available on the websites of the Stock Exchange and the Company.

As the Company was listed on the Stock Exchange on 30 December 2022, no meeting of the Strategy Committee was held during the Reporting Period in accordance with its written terms of reference.

ESG Committee

The ESG Committee comprises two executive Directors, namely Ms. JIANG Hua (chairlady), and Dr. DOU Changlin, and one non-executive Director, Ms. LI Li. The main responsibility of the ESG Committee is to identify and manage environmental, social and governance-related risks and opportunities, and to address and implement relevant governance strategies and initiatives. The ESG Committee have the following primary duties:

- to co-ordinate, identify, assess and manage the ESG matters of the Group and report to the Board on any significant issues;
- to develop and review the approach and strategy of the Group's ESG policies, and closely monitor the implementation and effectiveness of ESG policies and initiatives;
- to set ESG-related objectives according to the actual situation of the Group and to regularly review the progress and performance of the Group against these objectives;
- to assist the Board in reviewing the annual ESG Report and to coordinate the preparation of the ESG Report;
- to keep abreast of regulatory requirements and to oversee the Group's compliance with relevant laws and regulations; and
- to co-ordinate any other ESG-related work as may be assigned by the Board.

The written terms of reference of the ESG Committee are available on the websites of the Stock Exchange and the Company.

The ESG Committee was established after the Reporting Period on 27 March 2023. Accordingly, no meeting of the ESG Committee was held during the Reporting Period.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2022 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

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

The statement by the auditor of the Company regarding their responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 68 of this annual report.

Risk Management and Internal Control

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard Shareholders investments and Company assets and reviewing the effectiveness of such system on an annual basis. The Board also clarifies that the system is purported to manage, but not eliminate, the risk of failure to fulfil business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has established an internal audit department to review the financial condition, operational condition, risk management, compliance control and internal control of the Group. Management is responsible for performing risk assessment, and owning the implementation and maintenance of internal control. Essential to this risk management and internal control systems are well defined policies and procedures that are properly documented and communicated to employees.

At least annually, the Board, through the Audit Committee, review the effectiveness of the risk management and the internal control systems of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the internal control system is effective and adequate. For the year ended 31 December 2022, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the risk management and the internal control systems are effective and adequate.

The Group's risk management and internal control system is embedded within our business processes so that it functions as an integral part of the overall operation of the Group. The system comprises a comprehensive organisation structure with assignment of definite accountabilities and delegation of corresponding authorities to each post. Based on our organization structure, a reporting system has been developed including reporting channels from division heads of business units to the Board.

The risk management and internal control systems and accounting system of the Group are aimed at identifying and evaluating the Group's risk and formulate risk mitigation strategies, and to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorisation, and the accounting records are reliable for preparing financial information used within the business for publication, maintaining accountability for assets and liabilities and ensuring the business operations are in accordance with relevant legislation, regulations and internal guidelines.

The Group has a defined organisational structure with clear defined lines of responsibility and authority. Each department is accountable for its daily operations and is required to report to executive Directors on a regular basis. Policies and procedures are set for each department, which includes establishing and maintaining effective policies to enhance risks identification to which the Group are exposed and taking appropriate action to manage such risks, establishing a structure with defined authorities and proper segregation of duties; monitoring the strategic plan and performance; designing an effective accounting and information system; controlling price sensitive information; and ensuring swift actions and timely communication with our stakeholders.

Whistle-blowing Policy

The Company has in place the Whistle-blowing Policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, about possible improprieties in any matters related to the Company.

Anti-Fraud and Anti-Bribery Policy

The Company has also in place the Anti-Fraud and Anti-Bribery Policy to safeguard against fraud and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected fraud and bribery. Employees can also make anonymous reports set out in the Whistle-blowing Policy.

DISSEMINATION OF INSIDE INFORMATION

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated to all staff; the Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. In addition, only Directors and delegated officers can act as the Group's spokesperson and respond to external enquiries about the Group's affairs.

AUDITOR'S REMUNERATION

For the year ended 31 December 2022, an analysis of the remuneration paid or payable to the Company's auditor, Ernst & Young, is set out below:

Items of auditor's services	Amount (RMB'000)
Audit services (Note)	7,817
Non-audit services – internal control review in connection with the Global Offering	556
Total	8,373

Note: the amount of audit services fees also included the audit service fees in connection with the Global Offering.

The Audit Committee and the Board have agreed on the re-appointment of Ernst & Young as the independent auditor of the Group for 2023 and the proposal will be submitted for approval at the AGM to be held on 29 May 2023.

COMPANY SECRETARY

Ms. LAI Siu Kuen ("Ms. LAI") has been appointed as the Company secretary of the Company since 10 March 2022. Ms. LAI is director of the Corporate Services Division of Tricor Services Limited, and she has closely communicated with Ms. JIANG Hua, an executive Director of the Company.

During the year ended 31 December 2022, Ms. LAI undertook not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The AGM of the Company provides opportunity for Shareholders to communicate directly with the Directors. The Chairlady of the Board, the chairperson of each Board committee of the Company will attend the AGMs to answer shareholders' questions. The external auditor of the Company will also attend the AGMs to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and maintains a website at www.boan-bio.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. The Board has reviewed the implementation of the shareholders' communication policy and considers its implementation as effective. Investors may write directly to the Company or via email to BAIR@boan-bio.com for any inquiries. Having considered the multiple channels of communication in place, the Board satisfied that the shareholders' communication policy has been properly implemented and is effective.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder 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 the Stock Exchange in a timely manner after each shareholder meeting.

CONVENING AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 67 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 are entitled to request in writing 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) In the event that the Board disagrees to convene an extraordinary general meeting or does not furnish any reply within 10 days after having received such requisition, any shareholder(s) individually or jointly holding 10% or more of the shares of the Company is/are entitled to propose in writing to the Board of Supervisors to convene an extraordinary general meeting.

(iii) In the event that the Board of Supervisors agrees to convene an extraordinary general meeting, a notice for convening such meeting shall be given within 5 days after receipt of such requisition and consent of the relevant shareholder(s) shall be obtained in case of any changes to the original proposal in the notice.

(iv) In the event that the Board of Supervisors fails to serve any notice of a general meeting within the prescribed period, the Board of Supervisors is deemed not to convene and preside over the meeting, in which case the shareholder(s) individually or jointly holding 10% or more of the shares of the Company for more than 90 consecutive days may convene and preside over the meeting on its/their own.

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 72 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 10 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 72.

Enquiries to the Board

Written enquiries to the Board may be made at the Company's principal place of business in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong for the attention to the Chairlady of the Board. Other enquiries may be made by telephone at (86) 0535-4379111.

CHANGE IN CONSTITUTIONAL DOCUMENTS

There was no change in the Articles of Association of the Company after the Listing Date.

On 17 February 2023, the State Council of the People's Republic of China and China Securities Regulatory Commission issued the Decision of the State Council to Repeal Certain Administrative Regulations and Documents (《國務院關於廢止部分行政法規和文件的決定》) and the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》), respectively, which will take effect from 31 March 2023. On the same date as the above-mentioned new regulations take effect, the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) and the Mandatory Provisions for Companies Listing Overseas (《到境外上市公司章程必備條款》) will be repealed. In light of aforementioned changes and taking into account the actual circumstances of the Company, the board of directors of the Company proposes to amend the articles of association of the Company as detailed in the Appendix to the Company's announcement dated 25 April 2023 (the "Proposed Amendments"). The Proposed Amendments also contain housekeeping changes including updates to the registered capital and number of issued shares of the Company following completion of its global offering on 30 December 2022. The Proposed Amendments are subject to consideration and approval by the shareholders of the Company at the upcoming AGM. A circular containing, among other things, details of the Proposed Amendments will be despatched to the shareholders of the Company in due course.

EY 安永

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To the shareholders of Shandong Boan Biotechnology Co., Ltd.
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Shandong Boan Biotechnology Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 144, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Capitalisation of development costs	
During the year ended 31 December 2022, expenditure of RMB184,510,000 incurred on projects to develop new pharmaceutical products was capitalised in intangible assets in the consolidated financial statements. The expenditure on development activities is capitalised when all the criteria mentioned in note 2.4 *Summary of significant accounting policies* were satisfied. Significant management estimation and judgement were required in determining whether the capitalised costs met the capitalisation criteria. The Group's disclosures about the capitalisation of development costs are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements* and *estimates* and note 15 *Intangible assets*, which specifically explain the accounting policies and management's assumptions and accounting estimates.	We evaluated management judgement on the distinction between research and development phase and the satisfaction of capitalisation criteria through comparison to industry practice and the Group's policy. We obtained an understanding of the Group's internal approval process regarding the capitalisation of development costs by conducting interviews with key management members in charge of research, development and commercialisation of various projects. We also examined technical feasibility reports and certifications related to different stages of development activities and reviewed the expenditure documents relevant to separately accounted development costs.
Impairment testing of intangible assets not yet available for use	
As at 31 December 2022, intangible assets not yet available for use amounted to RMB285,235,000. The Group performs its impairment test for intangible assets not yet available for use on an annual basis. The impairment reviews performed by the Group contained significant judgement and estimates on assumptions including growth rate, profit margin and discount rate. The Group's disclosures on intangible assets not yet available for use are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements* and *estimates* and note 15 *Intangible assets*, which specifically explain the accounting policies and management's assumptions and accounting estimates.	We checked the key assumptions including the product's projected market share, expected selling price and associated costs to be incurred against industrial analyst commentaries, consensus forecasts of certain therapeutic area and benchmark data for comparable companies where available. We involved our internal valuation specialists to assist us in evaluating the methodologies used in the impairment analysis, in particular discount rate and growth rate.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	**515,960**	158,704
Cost of sales		**(161,730)**	(52,190)
Gross profit		**354,230**	106,514
Other income and gains	5	**24,348**	13,365
Research and development costs		**(400,338)**	(231,567)
Administrative expenses		**(82,334)**	(42,165)
Selling and distribution expenses		**(214,086)**	(54,048)
Other expenses		**(162)**	(5,917)
Finance costs	7	**(13,407)**	(11,599)
LOSS BEFORE TAX	6	**(331,749)**	(225,417)
Income tax expense	10	**–**	–
LOSS FOR THE YEAR		**(331,749)**	(225,417)
Attributable to:			
Owners of the parent		**(331,749)**	(225,417)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**1,703**	(128)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**1,703**	(128)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(330,046)**	(225,545)
Attributable to:			
Owners of the parent		**(330,046)**	(225,545)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	12	**(0.67)**	(0.47)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	572,092	504,842
Advance payments for property, plant and equipment and intangible assets		41,685	79,192
Right-of-use assets	14(a)	10,602	16,718
Intangible assets	15	731,505	566,002
Total non-current assets		1,355,884	1,166,754
CURRENT ASSETS			
Inventories	16	143,634	98,840
Trade and notes receivables	17	212,124	107,267
Prepayments, other receivables and other assets	18	50,259	75,328
Pledged deposits	19	207,160	44,853
Time deposits over three months	19	–	81,859
Cash and cash equivalents	19	233,498	531,703
Total current assets		846,675	939,850
CURRENT LIABILITIES			
Lease liabilities	14(b)	8,384	10,019
Trade and notes payables	20	160,203	138,714
Other payables and accruals	21	204,427	79,024
Interest-bearing bank loans	22	83,339	10,000
Due to related parties	30(b)	15,318	22,725
Total current liabilities		471,671	260,482
NET CURRENT ASSETS		375,004	679,368
TOTAL ASSETS LESS CURRENT LIABILITIES		1,730,888	1,846,122

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	–	4,504
Interest-bearing bank loans	22	210,000	240,000
Government grants	23	–	1,800
Other non-current liabilities	24	102,511	48,131
Total non-current liabilities		312,511	294,435
Net assets		1,418,377	1,551,687
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	509,278	498,583
Reserves	26	909,099	1,053,104
Total equity		1,418,377	1,551,687

Ms. JIANG Hua
Director

Dr. DOU Changlin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Share capital RMB'000 (note 25)	Share premium* RMB'000 (note 26)	Other reserves* RMB'000 (note 26)	Safety production reserve* RMB'000 (note 26)	Exchange fluctuation reserve* RMB'000 (note 26)	Accumulated losses* RMB'000	Total equity RMB'000
At 1 January 2022	498,583	1,161,888	65,430	2,016	(128)	(176,102)	1,551,687
Loss for the year	–	–	–	–	–	(331,749)	(331,749)
Exchange differences on translation of foreign operations	–	–	–	–	1,703	–	1,703
Total comprehensive loss for the year	–	–	–	–	1,703	(331,749)	(330,046)
Issue of shares from initial public offering	10,695	178,461	–	–	–	–	189,156
Share issue expenses	–	(10,899)	–	–	–	–	(10,899)
Appropriation to safety production reserve	–	–	–	4,429	–	(4,429)	–
Safety production reserve used	–	–	–	(1,218)	–	1,218	–
Share-based payment arrangements *(note 27)*	–	–	18,479	–	–	–	18,479
At 31 December 2022	509,278	1,329,450	83,909	5,227	1,575	(511,062)	1,418,377

Year ended 31 December 2022

	Share capital RMB'000 (note 25)	Paid-in capital RMB'000	Share premium* RMB'000 (note 26)	Other reserves* RMB'000 (note 26)	Safety production reserve* RMB'000 (note 26)	Exchange fluctuation reserve* RMB'000 (note 26)	Accumulated losses* RMB'000	Total equity RMB'000
At 1 January 2021	–	360,000	–	801,184	–	–	(679,595)	481,589
Loss for the year	–	–	–	–	–	–	(225,417)	(225,417)
Exchange differences on translation of foreign operations	–	–	–	–	–	(128)	–	(128)
Total comprehensive loss for the year	–	–	–	–	–	(128)	(225,417)	(225,545)
Capital contribution from shareholders before conversion into a joint stock company	–	123,199	–	896,099	–	–	–	1,019,298
Conversion into a joint stock company	484,000	(483,199)	965,556	(1,697,283)	–	–	730,926	–
Capital contribution from shareholders after conversion into a joint stock company	14,583	–	196,332	–	–	–	–	210,915
Exemption of payables to a shareholder	–	–	–	44,155	–	–	–	44,155
Appropriation to safety production reserve	–	–	–	–	2,507	–	(2,507)	–
Safety production reserve used	–	–	–	–	(491)	–	491	–
Share-based payment arrangements *(note 27)*	–	–	–	21,275	–	–	–	21,275
At 31 December 2021	498,583	–	1,161,888	65,430	2,016	(128)	(176,102)	1,551,687

* These reserve accounts comprise the consolidated reserves of RMB909,099,000 (2021: RMB1,053,104,000) 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		**(331,749)**	(225,417)
Adjustments for:			
Finance costs	7	**13,407**	11,599
Bank interest income		**(5,568)**	(9,101)
Loss on disposal of items of property, plant and equipment		**16**	66
Depreciation of property, plant and equipment		**47,910**	30,895
Depreciation of right-of-use assets		**7,389**	8,080
Amortisation of intangible assets		**17,536**	11,034
Impairment of trade receivables	17	**26**	–
Share-based payment expense	27	**18,479**	21,275
Foreign exchange difference, net		**(2,722)**	4,949
		(235,276)	(146,620)
Increase in inventories		**(44,794)**	(79,168)
Increase in trade and notes receivables		**(104,883)**	(106,567)
Decrease/(increase) in prepayments, other receivables and other assets		**24,535**	(6,697)
Decrease/(increase) in pledged deposits		**19,552**	(26,712)
Increase in trade and notes payables		**21,489**	47,129
Increase in other payables and accruals		**122,529**	64,222
Decrease in government grants		**(1,800)**	(1,000)
Decrease in amounts due to related parties		**(7,407)**	(20,018)
Increase in other non-current liabilities		**4,214**	29,153
Cash used in operations		**(201,841)**	(246,278)
Net cash flows used in operating activities		**(201,841)**	(246,278)

Year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(81,291)	(107,729)
Increase in intangible assets		(125,085)	(233,516)
Decrease/(increase) in time deposits over three months		100,000	(100,000)
Bank interest received		5,692	8,949
Net cash flows used in investing activities		(100,684)	(432,296)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		52,979	–
Repayment of bank loans		(10,000)	–
Increase in pledged deposits		(200,000)	–
Proceeds from initial public offering		189,156	–
Payment for listing expenses		(10,610)	(289)
Principal portion of lease payments		(8,605)	(9,426)
Interest paid		(13,047)	(11,599)
Capital contribution from shareholders		–	1,230,213
Advances from a related party		–	2,830
Net cash flows (used in)/from financing activities		(127)	1,211,729
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(302,652)	533,155
Cash and cash equivalents at beginning of year		531,703	3,629
Effect of foreign exchange rate changes, net		4,447	(5,081)
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	233,498	531,703
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	240,658	558,415
Less: Pledged deposits for notes payable		(7,160)	(26,712)
Cash and cash equivalents as stated in the consolidated statements of financial position and the consolidated statements of cash flows	19	233,498	531,703

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION

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 No. 39 Keji Avenue, High-Tech Industrial Development Zone, Yantai, Shandong Province, China.

During the year, the Company and its subsidiaries were principally engaged in the development, manufacture and commercialisation of high quality biologics in China and worldwide.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company are Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye"), which is established in the PRC, and Luye Pharma Group Ltd., which is incorporated in Bermuda, respectively.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanjing Boan Biotechnology Co., Ltd.* ("Boan Nanjing")	PRC/ Mainland China	RMB 2,000,000	100%	–	Early stage research and development in new antibody drugs
Boan Singapore Innovation Center Pte. Ltd.	Singapore	US$ 8,200,001	100%	–	Overseas market development
Boan Boston LLC	United States of America ("USA")	US$1	–	100%	Early stage research and development in new antibody drugs

* This entity is a limited liability enterprise established under PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for notes receivable. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 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 information of the subsidiaries is 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 Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

(a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in 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 business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024.
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 1 January 2023
6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

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

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

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

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 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

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

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

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

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

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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 estimated useful lives of property, plant and equipment are as follows:

Buildings	20 to 40 years
Machinery and equipment	5 to 10 years
Office equipment	3 to 5 years

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Construction in progress represents buildings under construction, and machinery and equipment under installation, 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

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 not yet available for use are tested for impairment annually either individually or at the cash-generating unit level, irrespective of whether there is any indication that they may be impaired. Such intangible assets are not amortised.

Technology know-how

Purchased technology know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years, which is determined by the expected usage period after considering the technical obsolescence and estimates of useful lives of similar assets.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 9 to 10 years, which is determined by the expected usage period after considering the technical obsolescence and estimates of useful lives of similar assets.

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Research and development costs (continued)

Expenditure in the development phase is capitalised and deferred if, and only if, all of the following have been demonstrated: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) the ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Product development expenditure which does not meet these criteria is expensed when incurred.

The specific criteria for the capitalisation of development costs are as follows:

As for biosimilar products, expenditures incurred after the commencement of Phase III clinical trial for the medicines are capitalised and recognised as assets when the above six criteria are met.

As for innovative products, expenditures incurred after obtaining the new drug application approval from the drug regulatory organisation are capitalised and recognised as assets when the above six criteria are met.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding twenty years, commencing from the date when the regulatory and marketing approval is received, which is determined based on the management's expectation of the period over which the deferred development assets are expected to be available for use by the Group, by considering product life cycles for the asset, the estimates of useful lives of similar products and the market condition.

Leases

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

Group as a lessee

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and 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:

Leasehold land	38 years
Laboratory and office premises	1.5 to 5 years
Machinery and equipment	1.5 to 5 years

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

(b) Lease liabilities

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

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

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment and buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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

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

Financial assets at fair value through profit or loss

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

Derecognition of financial assets

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach (continued)

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

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

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

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

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on market 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 financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

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

The Group's financial liabilities include trade and notes payables, other payables and accruals and interest-bearing bank loans.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and payables)

After initial recognition, trade and notes payables, other payables and accruals and 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 profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents (continued)

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.

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 each 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 temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- where 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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

Government grants

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

Revenue recognition

Revenue from contracts with customers

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

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

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.

(a) Sale of products

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

(b) Provision of research and development services

Revenue from the provision of research and development services is recognised at a point in time when the Group transfers the control for services/deliverables at a point in time generally upon finalisation, delivery and acceptance of the services/deliverables.

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 liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract costs

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

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to 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. The contract costs are disclosed in inventories.

Share-based payments

The Company operates a share-based payment scheme 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 an external valuer using the back-solve method and equity value allocation based on the option pricing model, further details of which are given in note 27 to the financial statements.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

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

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

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

Other employee benefits

Pension schemes

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as incurred. The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

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

Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

The financial statements are presented in RMB, which is the Company's functional and presentation 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 profit or loss.

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

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

The functional currencies of certain overseas subsidiaries are currencies other than 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. 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 profit or loss.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Research and development costs

All research costs are charged to profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions and judgements regarding to technical feasibility of completing the intangible asset, future economic benefits and so forth.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. 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 exercise or not to exercise the option to renew or to terminate the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term for leases of laboratory and machinery and equipment due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., one and a half to five years) and there will be a significant negative effect on production if a replacement is not readily available.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing period for groupings of various customer segments that have similar loss patterns.

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 are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, 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 17 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).

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. Intangible assets with indefinite useful lives or not yet available for use 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.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

All external revenue of the Group during the year was attributable to customers in Mainland China.

(b) Non-current assets

	2022 RMB'000	2021 RMB'000
Mainland China	1,354,914	1,162,519
Other countries	970	4,235
	1,355,884	1,166,754

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

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2022 RMB'000	2021 RMB'000
Customer A	191,396	48,291
Customer B	66,730	32,852
Customer C	59,005	28,223

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	515,960	158,704

Revenue from contracts with customers

(a) Disaggregated revenue information

	2022 RMB'000	2021 RMB'000
Type of goods		
Sale of products	515,960	158,704
Timing of revenue recognition		
Goods transferred at a point in time	515,960	158,704

Geographical markets

All of the Group's revenue was generated from customers located in Mainland China during the year.

The following table shows the amount of revenue recognised in the current reporting period that was 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:		
Sale of products	1,290	–

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(b) Performance obligations

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

Sale of products

The performance obligation is satisfied upon acceptance of the goods and payment is generally due within one month to three months.

Provision of research and development services

The performance obligation is satisfied upon finalisation, delivery and acceptance of the services/deliverables and payment of the goods and payment is generally due within 30 days from the date of billing.

An analysis of other income and gains is as follows:

	2022	2021
	RMB'000	RMB'000
Other income and gains		
Government grants*	**16,301**	4,264
Bank interest income	**5,568**	9,101
Foreign exchange gain, net	**2,381**	–
Others	**98**	–
	24,348	13,365

* The government grants mainly represent subsidies received from local government authorities to support the Group's research and development activities and operation. During the year, government grants amounting to RMB5,800,000 (2021: RMB1,000,000) were released from deferred government grants (note 23).

6. LOSS BEFORE TAX

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

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		**159,891**	48,003
Depreciation of property, plant and equipment		**47,910**	30,895
Depreciation of right-of-use assets		**7,389**	8,080
Amortisation of intangible assets*		**17,536**	11,034
Research and development costs		**400,338**	231,567
Lease payments not included in the measurement of lease liabilities	14(c)	**4,491**	651
Auditor's remuneration		**2,217**	472
Listing expenses		**43,138**	2,371
Write-down of inventories to net realisable value**		**1,839**	4,187
Foreign exchange differences, net		**(2,381)**	5,851
Loss on disposal of items of property, plant and equipment		**16**	66
Government grants	5	**(16,301)**	(4,264)
Impairment of trade receivables, net	17	**26**	–
Bank interest income	5	**(5,568)**	(9,101)
Employee benefit expense (excluding directors', chief executive's and supervisors' remuneration *(note 8)*):			
Wages and salaries		**90,435**	55,599
Pension scheme contributions***		**18,595**	9,038
Staff welfare expenses		**4,509**	4,997
Share-based payment expense		**8,610**	9,913
		122,149	79,547

* The amortisation of technology know-how and software is included in "Research and development costs" in the consolidated statement of profit or loss and other comprehensive income. The amortisation of deferred development costs is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

** The write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest on bank loans	12,079	10,895
Interest on lease liabilities *(note 14(b))*	416	704
Interest on discounted notes receivable	912	–
	13,407	11,599

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors', chief executive's and supervisors' remuneration for the year is as follows:

	Group	
	2022 RMB'000	2021 RMB'000
Fees	300	225
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	7,633	7,695
Pension scheme contributions	332	246
Share-based payment expense	9,869	11,362
	17,834	19,303
	18,134	19,528

In prior year, certain directors were granted equity interests in respect of their services to the Group, further details of which are set out in note 27 to the financial statements. The fair value of the equity interests granted, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current year is included in the above directors', chief executive's and supervisors' remuneration disclosures.

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (CONTINUED)

Directors

(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
Mr. LIU Zhengjun	92	75
Mr. SHI Luwen	100	75
Mr. DAI Jixiong	100	75
Dr. YU Jialin	8	–
	300	225

In November 2022, Mr. LIU Zhengjun resigned and in December 2022, Dr. YU Jialin was appointed as an independent non-executive director.

There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (CONTINUED)

Directors (continued)

(b) Executive directors, non-executive directors and the chief executive

	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payment expense RMB'000	Total remuneration RMB'000
2022				
Executive directors:				
Ms. JIANG Hua*	2,927	118	3,730	6,775
Dr. DOU Changlin	4,514	169	2,642	7,325
	7,441	287	6,372	14,100
Non-executive directors:				
Dr. LI Youxin	–	–	583	583
Ms. LI Li	–	–	1,360	1,360
Mr. LIU Yuanchong	–	–	1,554	1,554
Mr. CHEN Jie	–	–	–	–
	–	–	3,497	3,497
	7,441	287	9,869	17,597
2021				
Executive directors:				
Ms. JIANG Hua*	2,914	149	4,294	7,357
Dr. DOU Changlin	4,615	56	3,042	7,713
	7,529	205	7,336	15,070
Non-executive directors:				
Dr. LI Youxin	–	–	671	671
Ms. LI Li	–	–	1,566	1,566
Mr. LIU Yuanchong	–	–	1,789	1,789
Mr. CHEN Jie	–	–	–	–
	–	–	4,026	4,026
	7,529	205	11,362	19,096

* Ms. JIANG Hua was appointed as the chief executive of the Company.

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (CONTINUED)

Supervisors

	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payment expense RMB'000	Total remuneration RMB'000
2022				
Ms. ZHANG Xiaomei	–	–	–	–
Ms. NING Xia	192	45	–	237
Ms. LIU Xiangjie	–	–	–	–
	192	45	–	237
2021				
Ms. ZHANG Xiaomei	–	–	–	–
Ms. NING Xia	166	41	–	207
Ms. LIU Xiangjie	–	–	–	–
	166	41	–	207

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	2022 RMB'000	2021 RMB'000
Salaries, bonuses, allowances and benefits in kind	6,363	6,179
Pension scheme contributions	276	199
Share-based payment expense	3,668	4,223
	10,307	10,601

The numbers of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands are as follows:

	Number of employees	
	2022	2021
HK$2,000,001 to HK$2,500,000	1	1
HK$3,500,001 to HK$4,000,000	1	–
HK$4,000,001 to HK$4,500,000	–	1
HK$5,000,001 to HK$5,500,000	1	–
HK$5,500,001 to HK$6,000,000	–	1
	3	3

In prior year, equity interests were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are set out in note 27 to the financial statements. The fair value of the equity interests granted, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiary of the Group as determined in accordance with the PRC Corporate Income Tax Law. During the year, the Company was accredited as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15% in 2022 (2021: 25%).

Pursuant to the relevant tax laws of Singapore, the subsidiary which operates in Singapore was subject to corporate income tax at the rate of 17% (2021: 17%) on the taxable income.

Pursuant to the relevant tax laws of the USA, federal corporation income tax was levied at the rate of 21% (2021: 21%) on the taxable income arising in the USA.

A reconciliation of the tax expense applicable to loss before tax using the statutory rate of the jurisdiction in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2022 **RMB'000**	2021 RMB'000
Loss before tax	**(331,749)**	(225,417)
Tax charged at the statutory tax rate of 25%	**(82,937)**	(56,354)
Effect of different tax rates enacted by local authorities	**124**	1,063
Effect of preferential income tax rate enacted by local authority	**29,661**	–
Additional deductible allowance for research and development costs	**(58,005)**	(46,793)
Expenses not deductible for tax	**27**	444
Exempted debts subject to tax	**–**	11,039
Deemed income subject to tax	**1,132**	2,330
Deductible temporary difference and tax losses not recognised	**109,998**	88,271
Tax charge at the Group's effective tax rate	**–**	–

10. INCOME TAX (CONTINUED)

The Group has accumulated tax losses in Mainland China of RMB2,034,193,000 (2021: RMB1,486,030,000) that can be carried forward for five to ten years to offset against future taxable profits of the entities in which losses were incurred. The Group has deductible temporary differences of RMB202,048,000 (2021: RMB66,597,000).

The Group has accumulated tax losses in the USA and Singapore of RMB41,742,000 (2021: RMB24,357,000) and RMB2,191,000 (2021: RMB751,000), respectively, that can be carried forward indefinitely to offset against future taxable profits of the entity in which the losses incurred.

Deferred tax assets have not been recognised in respect of these losses and temporary differences as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. DIVIDENDS

No dividends have been paid or declared by the Company during year (2021: Nil).

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 498,612,595 in issue during the year. The weighted average number of ordinary shares of 478,577,465 for the year ended 31 December 2021 was retrospectively adjusted on the assumption that the conversion to ordinary shares with par value of RMB1.00 each due to the Company's conversion to a joint stock company had been completed on 1 January 2021.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022					
At 1 January 2022:					
Cost	121,211	461,986	8,011	12,442	603,650
Accumulated depreciation	(4,047)	(93,585)	(1,176)	–	(98,808)
Net carrying amount	117,164	368,401	6,835	12,442	504,842
At 1 January 2022, net of accumulated depreciation	117,164	368,401	6,835	12,442	504,842
Additions	168	58,104	1,289	62,240	121,801
Disposals	–	(14)	(2)	–	(16)
Depreciation provided during the period	(4,063)	(49,220)	(1,252)	–	(54,535)
Transfers	–	33,883	–	(33,883)	–
At 31 December 2022, net of accumulated depreciation	113,269	411,154	6,870	40,799	572,092
At 31 December 2022:					
Cost	121,379	553,911	9,297	40,799	725,386
Accumulated depreciation	(8,110)	(142,757)	(2,427)	–	(153,294)
Net carrying amount	113,269	411,154	6,870	40,799	572,092

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021					
At 1 January 2021:					
Cost	121,017	389,282	2,075	1,737	514,111
Accumulated depreciation	–	(51,432)	(509)	–	(51,941)
Net carrying amount	121,017	337,850	1,566	1,737	462,170
At 1 January 2021, net of accumulated depreciation	121,017	337,850	1,566	1,737	462,170
Additions	194	71,716	5,940	12,468	90,318
Disposals	–	(66)	–	–	(66)
Depreciation provided during the year	(4,047)	(42,862)	(671)	–	(47,580)
Transfers	–	1,763	–	(1,763)	–
At 31 December 2021, net of accumulated depreciation	117,164	368,401	6,835	12,442	504,842
At 31 December 2021:					
Cost	121,211	461,986	8,011	12,442	603,650
Accumulated depreciation	(4,047)	(93,585)	(1,176)	–	(98,808)
Net carrying amount	117,164	368,401	6,835	12,442	504,842

At 31 December 2022, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB183,565,000 (2021: RMB200,011,000) were pledged to secure bank loans (note 22).

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of laboratory and office premises, and machinery and equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 38 years, and no ongoing payments will be made under the terms of these land leases. Leases of laboratory and office premises have lease terms between 1.5 and 5 years, while machinery and equipment generally have lease terms between 1.5 and 5 years. Other equipment generally has lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Leasehold land RMB'000	Laboratory and office premises RMB'000	Machinery and equipment RMB'000	Total RMB'000
At 1 January 2021	4,535	7,090	5,281	16,906
Additions	–	6,314	3,185	9,499
Depreciation charge	(111)	(5,134)	(4,404)	(9,649)
Exchange realignment	–	(23)	(15)	(38)
At 31 December 2021 and 1 January 2022	**4,424**	**8,247**	**4,047**	**16,718**
Additions	**–**	**–**	**2,272**	**2,272**
Depreciation charge	**(111)**	**(4,943)**	**(3,506)**	**(8,560)**
Exchange realignment	**–**	**104**	**68**	**172**
At 31 December 2022	**4,313**	**3,408**	**2,881**	**10,602**

At 31 December 2022, certain of the Group's right-of-use assets with a net carrying amount of approximately RMB4,313,000 (2021: RMB4,424,000) were pledged to secure bank loans (note 22).

14. LEASES (CONTINUED)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	14,523	16,133
New leases	2,272	9,499
Accretion of interest recognised during the year	416	704
Payments	(9,021)	(10,130)
Exemption of payments	–	(1,641)
Exchange realignment	194	(42)
Carrying amount at 31 December	8,384	14,523
Analysed into:		
Current portion	8,384	10,019
Non-current portion	–	4,504

The maturity analysis of lease liabilities is disclosed in note 33 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	416	704
Depreciation charge of right-of-use assets	7,389	8,080
Expense relating to short-term leases (included in cost of sales, research and development costs and administrative expenses)	4,491	651
Total amount recognised in profit or loss	12,296	9,435

(d) The total cash outflow for leases is disclosed in note 28(c) to the financial statements.

15. INTANGIBLE ASSETS

	Technology know-how RMB'000	Deferred development costs RMB'000	Software RMB'000	Total RMB'000
31 December 2022				
Cost at 1 January 2022, net of accumulated amortisation	8,100	557,871	31	566,002
Addition	–	184,510	74	184,584
Amortisation provided during the year	(3,600)	(15,477)	(4)	(19,081)
At 31 December 2022	4,500	726,904	101	731,505
At 31 December 2022:				
Cost	36,000	751,756	109	787,865
Accumulated amortisation	(31,500)	(24,852)	(8)	(56,360)
Net carrying amount	4,500	726,904	101	731,505
31 December 2021				
Cost at 1 January 2021, net of accumulated amortisation	11,700	313,531	35	325,266
Addition	–	253,715	–	253,715
Amortisation provided during the year	(3,600)	(9,375)	(4)	(12,979)
At 31 December 2021	8,100	557,871	31	566,002
At 31 December 2021:				
Cost	36,000	567,246	35	603,281
Accumulated amortisation	(27,900)	(9,375)	(4)	(37,279)
Net carrying amount	8,100	557,871	31	566,002

15. INTANGIBLE ASSETS (CONTINUED)

Impairment testing of deferred development costs

The intangible assets of the Group include the deferred development costs which are the expenditure incurred in the development phase of each project. The management of the Company tests the deferred development costs which are not yet available for use for impairment at least annually, and whenever there is an indication that the unit may be impaired, by comparing their carrying amounts with their recoverable amounts.

The recoverable amounts of the deferred development costs were determined based on the value in use. The value in use of the deferred development costs was determined by using the risk-adjusted net present value method through taking into account the possibility of success, using cash flow projections based on financial budgets approved by the management of the Company covering thirteen to sixteen years which consist of development periods up to two years, growth and mature periods of six to ten years and fast-declining periods of five years, reflecting the periods before reaching a perpetual growth mode. Considering it generally takes longer for a biotechnology company to reach a perpetual growth mode compared to companies in other industries and taking into account of the expected timing of commercialisation, market size and penetration of related products, the management of the Company prepared the financial forecasts up to the year of 2035 in the impairment tests. Other key assumptions used in the value-in-use calculations are listed as follows:

	2022	2021
Discount rate	**14%**	15%
Budgeted gross margin	**86%**	86%
Terminal growth rate	**–3%**	–3%

Discount rate – The discount rate used is before tax and reflect specific risks relating to deferred development costs.

Budgeted gross margin – The basis used to determine the value assigned to budgeted gross margin is the market gross margins where the biopharmaceuticals are located, taking into account the expected efficiency improvements and expected market development.

Terminal growth rate – The terminal growth rates used to extrapolate the cash flows beyond the forecast period is based on the estimate to the life cycle of biosimilars and the characteristics of biopharmaceuticals.

The values assigned to the key assumptions are consistent with historical experience of the Group and external information sources.

16. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	96,128	53,926
Work in progress	19,336	12,525
Finished goods	28,053	32,389
Contract costs – Costs to fulfill contracts	117	–
	143,634	98,840

17. TRADE AND NOTES RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	162,623	78,057
Notes receivable	49,527	29,210
	212,150	107,267
Impairment	(26)	–
	212,124	107,267

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to three months, depending on the specific payment terms in each contract. 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables is an amount due from a related party of RMB661,000 (2021: Nil), which is repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2022, notes receivable of RMB49,527,000 (2021: RMB29,210,000) whose fair values approximated to their carrying values were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant.

17. TRADE AND NOTES RECEIVABLES (CONTINUED)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 RMB'000	2021 RMB'000
Within 3 months	161,868	77,858
3 to 6 months	709	113
6 to 12 months	–	86
1 to 2 years	20	–
	162,597	78,057

The movement in the loss allowance for impairment of trade receivables is as follows:

	2022 RMB'000	2021 RMB'000
At beginning of year	–	–
Impairment losses	26	–
At end of year	26	–

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2022

	Within 1 year	1 year to 2 years	Total
Expected credit loss rate	0.00%	56.52%	0.02%
Gross carrying amount (RMB'000)	162,577	46	162,623
Expected credit losses (RMB'000)	–	26	26

17. TRADE AND NOTES RECEIVABLES (CONTINUED)

At 31 December 2022, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Endorsed Notes") to its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB13,666,000 (2021: RMB2,487,000) (the "Endorsement"). In addition, the Group discounted certain notes receivable accepted by banks in the PRC (the "Discounted Notes") to banks to finance its operating cash flows with a carrying amount in aggregate of RMB54,008,000 (2021: Nil) (the "Discount"). The Endorsed Notes and the Discounted Notes had a maturity from one to twelve months as at the end of the reporting period. In accordance with the Law of Negotiable Instruments and relevant discounting arrangements with the certain banks in the PRC, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if that certain banks default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to a part of Endorsed Notes with an amount of RMB10,340,000 (2021: RMB2,477,000) and a part of Discounted Notes with an amount of RMB31,076,000 (2021: Nil) accepted by large and reputable banks (the "Derecognised Notes"). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

For the rest of the Endorsed Notes and the Discounted Notes, the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes and Discounted Notes, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Notes and the Discounted Notes. Subsequent to the Endorsement or the Discount, the Group did not retain any rights on the use of the Endorsed Notes or the Discounted Notes, including the sale, transfer or pledge of the Endorsed Notes or the Discounted Notes to any other third parties. At 31 December 2022, the aggregate carrying amount of the trade and other payables settled by such Endorsed Notes to which the suppliers have recourse was RMB3,326,000 (2021: RMB10,000), and the aggregate carrying amount financed by such Discounted Notes to which the banks have recourse was RMB22,932,000 (2021: Nil).

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments	31,238	51,592
Value-added tax recoverable	11,555	15,472
Other receivables	3,057	2,813
Deferred listing expenses	–	418
Other current assets	4,409	5,033
	50,259	75,328

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 of the Group was assessed to be minimal and the expected credit loss rate for other receivables was close to zero.

19. CASH AND CASH EQUIVALENTS, TIME DEPOSITS OVER THREE MONTHS AND PLEDGED DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	240,658	558,415
Time deposits	200,000	100,000
	440,658	658,415
Less:		
Pledged deposits for notes payable *(note 20)*	(7,160)	(44,853)
Pledged deposits for bank loans *(note 22)*	(200,000)	–
Non-pledged time deposits over three months	–	(81,859)
Cash and cash equivalents	233,498	531,703
Denominated in:		
RMB	70,424	281,308
United States dollar ("US$")	949	250,094
Singapore dollar ("SG$")	231	301
Hong Kong dollar ("HK$")	161,894	–
Cash and cash equivalents	233,498	531,703

Time deposits over three months were denominated in RMB as at the end of the reporting period. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

19. CASH AND CASH EQUIVALENTS, TIME DEPOSITS OVER THREE MONTHS AND PLEDGED DEPOSITS (CONTINUED)

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 twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

20. TRADE AND NOTES PAYABLES

	2022 **RMB'000**	2021 RMB'000
Trade payables	**153,043**	93,861
Notes payable	**7,160**	44,853
	160,203	138,714

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

	2022 **RMB'000**	2021 RMB'000
Within 3 months	**108,565**	75,185
3 to 6 months	**32,827**	8,453
6 to 12 months	**9,482**	5,593
1 to 2 years	**1,462**	4,548
Over 2 years	**707**	82
	153,043	93,861

Trade payables are non-interest-bearing and are normally settled on 90-day terms.

The maturity of notes payable is within six months.

At 31 December 2022, notes payable were secured by certain of the deposits amounting to approximately RMB7,160,000 (2021: RMB44,853,000) (note 19).

21. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Payroll payables		35,366	21,408
Other payables	(a)	15,279	7,509
Taxes payable other than income tax		11,843	5,870
Accrued promotion expenses		127,629	42,305
Accrued listing expenses		7,286	642
Contract liabilities	(b)	7,024	1,290
		204,427	79,024

Notes:

(a) Other payables are non-interest-bearing and repayable on demand.

(b) Details of contract liabilities are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000	1 January 2021 RMB'000
Short-term advances received from customers			
Sale of products	6,081	1,290	–
Provision of research and development services	943	–	–
Total contract liabilities	7,024	1,290	–

Contract liabilities include short-term advances received to deliver products and render research and development services. The increase in contract liabilities in 2022 and 2021 was mainly due to the increase in short-term advances received from customers in relation to the sale of products and research and development services.

22. INTEREST-BEARING BANK LOANS

	Interest rate (%)	Maturity	2022 RMB'000	2021 RMB'000
Current				
Bank overdrafts – secured	–	On demand	155	–
Bank loans – secured	1-year LPR+0.85	2023	30,041	–
Current portion of long-term bank loans – secured	5-year LPR+0.05	2023	30,319	10,000
Discounted notes receivable	1.40–2.20	2023	22,824	–
			83,339	10,000
Non-current				
Bank loans – secured	5-year LPR+0.05	2024–2026	210,000	240,000
			293,339	250,000
Analysed into:				
Bank loans repayable:				
Within one year			83,339	10,000
In the second year			50,000	30,000
In the third to fifth years, inclusive			160,000	210,000
			293,339	250,000

The Group's bank loans are secured by:

(i) mortgages over the Group's property, plant and equipment, which had a net carrying value at the end of the reporting period of approximately RMB183,565,000 (2021: RMB200,011,000) (note 13);

(ii) mortgages over the Group's right-of-use assets, which had a net carrying value at the end of the reporting period of RMB4,313,000 (2021: RMB4,424,000) (note 14); and

(iii) the pledge of certain of the Group's time deposits of RMB200,000,000 (2021: Nil) (note 19).

23. GOVERNMENT GRANTS

	2022 RMB'000	2021 RMB'000
At beginning of year	1,800	2,800
Grants received during the year	4,000	–
Amounts released to profit or loss	(5,800)	(1,000)
At end of year	–	1,800

The grants were related to the subsidies received from local government authorities to support the Group's research and development activities with conditions to fulfil. The grants were recognised in profit or loss when the conditions were met.

24. OTHER NON-CURRENT LIABILITIES

The Group entered into collaboration agreements with OcuMension Therapeutics (Zhejiang) Co., Ltd. ("OcuMension"), pursuant to which the Company agreed to conduct certain initial stages of the Phase 3 clinical trial and commercial production and to obtain the biologic licence application of BA9101 and OcuMension agreed to complete the rest of Phase 3 clinical trial and to promote and commercialise BA9101 in China. Other non-current liabilities represent the considerations received for the collaboration arrangement.

25. SHARE CAPITAL

Shares

	2022 RMB'000	2021 RMB'000
Issued and fully paid:		
509,278,094 (2021: 498,583,294) ordinary shares	509,278	498,583

A summary of movements in the Company's share capital is as follows:

	Number of shares	Share capital RMB'000
At 1 January 2021	–	–
Issue of ordinary shares upon conversion into a joint stock company	484,000,000	484,000
Issue of ordinary shares	14,583,294	14,583
At 31 December 2021 and 1 January 2022	498,583,294	498,583
Initial public offering *(note)*	10,694,800	10,695
At 31 December 2022	509,278,094	509,278

25. SHARE CAPITAL (CONTINUED)

Shares (continued)

A summary of movements in the Company's share capital is as follows: (continued)

Note:

On 30 December 2022, 10,694,800 ordinary shares of par value RMB1.00 each were issued at a price of HK$19.8 per share in connection with the Company's initial public offering. The proceeds of HK$11,972,640 (equivalent to RMB10,694,800), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$199,784,400 (equivalent to RMB178,461,000) before issuing expenses were credited to the share premium account.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity of the financial statements.

Share premium

The share premium of the Group represents the share premium contributed by the shareholders of the Company after its conversion into a joint stock company.

Other reserves

Other reserves of the Group represent the share premium contributed by the shareholders of the Company before its conversion into a joint stock company, exempted payables to shareholders and share-based payment reserve.

Safety production reserve

The Group has appropriated a certain amount of accumulated losses to the safety production reserve fund for safety production expense purposes as required by directives issued by the relevant PRC government authorities. The Group charged the safety production expense to profit or loss when such expense was incurred, and at the same time an equal amount of special reserve fund was utilised and transferred back to accumulated losses.

Exchange fluctuation reserve

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

27. SHARE-BASED PAYMENT

In December 2020, the board of directors of the Company passed a resolution to grant equity interests in the Company to the eligible employees (including directors) in order to provide incentives and rewards to participants for the business development of the Group. Subsequently, Yantai Bolian Investment Center Limited Partnership ("Yantai Bolian"), Yantai Bosheng Investment Center Limited Partnership ("Yantai Bosheng") and Yantai Bofa Investment Center Limited Partnership ("Yantai Bofa"), three employee incentive platforms established in the PRC, subscribed paid-in capital of RMB21,380,000, RMB14,930,000 and RMB11,250,000 of the Company for total considerations of RMB64,140,000, RMB44,790,000 and RMB33,750,000, respectively.

On 27 January 2021, 4.4247% of the then equity interest in the Company was granted to 36 selected directors and employees of the Company for a consideration of RMB64,140,000 through Yantai Bolian. 3.0898% of the then equity interest in the Company was granted to 45 selected directors and employees of the Company for a consideration of RMB44,790,000 through Yantai Bosheng. 2.3282% of the then equity interest in the Company was granted to 47 selected directors and employees of the Company for a consideration of RMB33,750,000 through Yantai Bofa. The management has the power to select the eligible employees and the Group derive benefits from the services of the employees who have been granted the then equity interest through their continued employment with the Group.

Pursuant to the partnership agreements of Yantai Bolian, Yantai Bosheng and Yantai Bofa (collectively referred to as the "ESOP Entities"), (i) the ESOP Entities shall not dispose of any of the shares they held within 36 months immediately following the date of the Company's listing (the "ESOP Lock-up Period"); and (ii) a partner is entitled to direct the ESOP Entities to dispose of his/her share of the shares held by the ESOP Entities (based on his/her shareholding percentage in the ESOP Entities) (the "ESOP Shares") in the following manner: (a) 25% of his/her ESOP Shares upon the expiry of 12 months following the day after the ESOP Lock-up Period; (b) 50% of his/her ESOP Shares upon the expiry of 24 months following the day after the ESOP Lock-up Period; (c) 75% of his/her ESOP Shares upon the expiry of 36 months following the day after the ESOP Lock-up Period; and (d) 100% of his/her ESOP Shares upon the expiry of 48 months following the day after the ESOP Lock-up Period. If a person cease to be qualified as a partner during the vesting period, the general partner shall have the right to purchase or appoint other eligible employees to purchase the share of that person at cost or cost plus market interest. In August 2021, the ESOP Lock-up Period was revised as 12 months immediately following the date of the Company's listing pursuant to the updated partnership agreements.

The fair value of services received in return for equity interests granted is measured by reference to the fair value of the equity interests granted less the consideration received by the Group.

The fair value of the equity interests granted is determined by the back-solve method and equity value allocation based on the option pricing model at the grant date.

27. SHARE-BASED PAYMENT (CONTINUED)

The following table lists the inputs to the model used:

	2021
Risk-free interest rate (%)	2.9%
Volatility (%)	42.0%

The Group recognised a share-based payment expense of RMB18,479,000 during the year ended 31 December 2022 (2021: RMB21,275,000).

28. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets of RMB2,272,000 (2021: RMB9,499,000) and non-cash additions to lease liabilities of RMB2,272,000 (2021: RMB9,499,000), respectively, in respect of lease arrangements for laboratory and office premises, and machinery and equipment.

During the year, the Group had non-cash additions to other non-current liabilities of RMB50,158,000 (2021: RMB6,420,000) in respect of a collaboration arrangement.

(b) Changes in liabilities arising from financing activities

	Bank loans RMB'000	Lease liabilities RMB'000	Amounts due to related parties RMB'000
At 1 January 2021	–	16,133	284,758
Changes from financing cash flows	(10,895)	(10,130)	2,830
New leases	–	9,499	–
Transfers	250,000	–	(250,000)
Interest expense	10,895	704	–
Changes from non-financing activities	–	–	27,651
Exemption of payments	–	(1,641)	(42,514)
Exchange realignment	–	(42)	–
At 31 December 2021 and 1 January 2022	**250,000**	**14,523**	**22,725**
Changes from financing cash flows	**30,348**	**(9,021)**	**–**
New leases	**–**	**2,272**	**–**
Interest expense	**12,991**	**416**	**–**
Changes from non-financing activities	**–**	**–**	**(7,407)**
Exchange realignment	**–**	**194**	**–**
At 31 December 2022	**293,339**	**8,384**	**15,318**

28. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

	2022 RMB'000	2021 RMB'000
Within operating activities	**4,491**	651
Within financing activities	**9,021**	10,130
	13,512	10,781

29. COMMITMENTS

At the end of the reporting period, the Group had capital commitments for the acquisition of property, plant and equipment with amounts of RMB236,353,000 (2021: RMB109,034,000).

30. RELATED PARTY TRANSACTIONS

The Group's principal related parties are as follows:

Name	Relationship with the Company
Shandong Luye	Shareholder
Mr. LIU Dian Bo	Director of Shandong Luye
Yantai Luye Pharmaceutical Holdings Co., Ltd. ("Yantai Luye")	Shareholder of Shandong Luye
Nanjing Luye Pharmaceutical Co., Ltd. ("Nanjing Luye")	Controlled by Shandong Luye
Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading")	Controlled by Shandong Luye
Shandong International Biotechnology Development Co., Ltd. ("Biotech Park Development")	Controlled by Mr. LIU Dian Bo
Luye Investment Group Co., Ltd. ("LIG")	Controlled by Mr. LIU Dian Bo
Geneleap Biotech LLC (formerly known as "Luye Boston Research & Development LLC") ("Luye Boston")*	Controlled by Mr. LIU Dian Bo
Yantai Yunyue Winery Management Co., Ltd. ("Yunyue Winery")	Controlled by Mr. LIU Dian Bo
Yantai Cellzone Medical Diagnostics Center Co., Ltd. ("Yantai Cellzone")	Controlled by Mr. LIU Dian Bo

* During the year, Luye Boston has ceased to be a related party of the Group. The outstanding balances with the entity are not disclosed as balances with related parties in note (b) below and the periods of the transaction amounts with Luye Boston disclosed in note (a) only covered the periods when it was a related party.

30. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) The Group had the following transactions with related parties during the year:

	Notes	2022 RMB'000	2021 RMB'000
Sales of goods to:			
Luye Trading	(i)	**840**	–
Lease and property management services from:			
Shandong Luye	(ii)	**393**	164
Biotech Park Development	(ii)	**494**	–
Testing services from:			
Shandong Luye	(ii)	**70**	663
Research and development services from:			
Yantai Cellzone	(ii)	**2,328**	–
EHS management services from:			
Shandong Luye	(ii)	**1,173**	331
Operation services from:			
Nanjing Luye	(ii)	**1,122**	925
Facilities maintenance services from:			
Nanjing Luye	(ii)	**–**	686
Accommodation services from:			
Yunyue Winery	(ii)	**107**	370
Purchase of welfare goods from:			
LIG	(ii)	**196**	–
Purchase of materials from:			
Shandong Luye	(ii)	**–**	2,000
Purchases of property, plant and equipment from:			
Shandong Luye	(ii)	**–**	25,866
Nanjing Luye	(ii)	**–**	16,320
Payments on behalf by:			
Shandong Luye	(iii)	**17,933**	12,783
Biotech Park Development	(iii)	**1,991**	1,908
Luye Boston	(iii)	**111**	2,431
Yantai Luye	(iii)	**180**	–
Repayments to:			
Shandong Luye	(iii)	**11,523**	4,759
Biotech Park Development	(iii)	**1,012**	2,358
Luye Boston	(iii)	**104**	2,400
Advances from:			
Shandong Luye	(iii)	**–**	2,380
Repayment of advances from:			
Shandong Luye	(iii)	**–**	229,834

30. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) The Group had the following transactions with related parties during the year: (continued)

Notes:

(i) The transaction price was determined on normal commercial terms, negotiated on arm's length basis, and on similar basis as the Group conducted businesses with major customers.

(ii) The transaction prices were determined on terms mutually agreed between the parties with reference to the actual cost and fees for similar transactions in the market.

(iii) The payments on behalf and advances were unsecured, interest-free and repayable on demand.

(b) Outstanding balances with related parties:

	2022 **RMB'000**	2021 RMB'000
Trade receivables:		
Luye Trading	**661**	–
Notes payable:		
Shandong Luye	**–**	15,740
Due to related parties:		
Shandong Luye*	**11,507**	2,378
Biotech Park Development**	**1,334**	222
Nanjing Luye	**1,122**	20,094
Luye Boston**	**–**	31
Yantai Luye**	**191**	–
Yantai Cellzone	**1,164**	–
	15,318	22,725
Lease liabilities:		
Shandong Luye	**2,448**	3,181
Biotech Park Development	**5,196**	5,620
Nanjing Luye	**739**	2,186
Luye Boston	**–**	3,536
	8,383	14,523

30. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties: (continued)

* At 31 December 2022, a balance of RMB1,020,000 was trade in nature (2021: RMB148,000), and a balance of RMB10,487,000 was non-trade in nature (2021: RMB2,230,000).

** The balances were non-trade in nature.

Other outstanding balances with related parties were all trade in nature.

The balances with related parties except for lease liabilities are unsecured, interest-free and have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group:

	2022 RMB'000	2021 RMB'000
Salaries, bonuses, allowances and benefits in kind	**13,827**	9,793
Pension scheme contributions	**685**	416
Share-based payment expense	**13,692**	13,572
Total compensation paid to key management personnel	**28,204**	23,781

Further details of directors', supervisors' and chief executive's remuneration are included in note 8 to the financial statements.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2022

	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	162,623	162,623
Notes receivable	49,527	–	49,527
Financial assets included in prepayments, other receivables and other assets	–	2,358	2,358
Pledged deposits	–	207,160	207,160
Cash and cash equivalents	–	233,498	233,498
	49,527	605,639	655,166

2021

	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	78,057	78,057
Notes receivable	29,210	–	29,210
Financial assets included in prepayments, other receivables and other assets	–	2,264	2,264
Pledged deposits	–	44,853	44,853
Time deposits over three months	–	81,859	81,859
Cash and cash equivalents	–	531,703	531,703
	29,210	738,736	767,946

31. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial liabilities at amortised cost

	2022 RMB'000	2021 RMB'000
Lease liabilities	8,384	14,523
Trade and notes payable	160,203	138,714
Financial liabilities included in other payables and accruals	150,194	50,456
Interest-bearing bank loans	293,339	250,000
Due to related parties	15,318	22,725
	627,438	476,418

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits over three months, pledged deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade and notes payable, financial liabilities included in other payables and accruals, amounts due to related parties and current portion of interest-bearing bank loans and lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the financial 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 loans and lease liabilities 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 changes in fair value as a result of the Group's own non-performance risk were assessed to be insignificant.

The fair values of the notes receivable classified as debt investments at fair value through other comprehensive income have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within twelve months, and thus, their fair values approximate to their carrying values.

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivable	–	49,527	–	49,527

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivable	–	29,210	–	29,210

The Group did not have any financial liabilities measured at fair value as at 31 December 2022 and 2021.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2021: Nil).

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities for which fair values are disclosed:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank loans	–	240,319	–	240,319

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank loans	–	250,000	–	250,000

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees 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 interest-bearing bank loans with a floating interest rate. The Group mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

At 31 December 2022, if the interest rates on bank loans had been 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the loss before tax for the year would have increased/decreased by RMB203,000 (2021: RMB279,000), as a result of higher/lower interest expenses on bank loans.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. The Group has currency exposures mainly arising from cash at banks denominated in US$. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. The Group constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's loss before tax (arising from US$ and HK$ denominated financial instruments) and the Group's equity (due to exchange differences on translation of foreign operations).

	Increase/ (decrease) in rate of foreign currency RMB'000	Decrease/ (increase) in loss before tax RMB'000	Increase/ (decrease) in equity RMB'000
2022			
If the RMB weakens against the US$	**5**	**40**	**1,471**
If the RMB strengthens against the US$	**(5)**	**(40)**	**(1,471)**
If the RMB weakens against the HK$	**5**	**8,095**	**8,095**
If the RMB strengthens against the HK$	**(5)**	**(8,095)**	**(8,095)**
2021			
If the RMB weakens against the US$	5	12,096	13,704
If the RMB strengthens against the US$	(5)	(12,096)	(13,704)

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.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed with different customers.

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 the end of the reporting period. The amounts presented are gross carrying amounts for financial assets.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade receivables*	–	–	–	162,623	162,623
Notes receivables	49,527	–	–	–	49,527
Financial assets included in prepayments, other receivables and other assets					
– Normal**	2,358	–	–	–	2,358
Pledged deposits					
– Not yet past due	207,160	–	–	–	207,160
Cash and cash equivalents					
– Not yet past due	233,498	–	–	–	233,498
	492,543	–	–	162,623	655,166

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade receivables	–	–	–	78,057	78,057
Notes receivables	29,210	–	–	–	29,210
Financial assets included in prepayments, other receivables and other assets					
– Normal**	2,264	–	–	–	2,264
Pledged deposits					
– Not yet past due	44,853	–	–	–	44,853
Time deposits over three months					
– Not yet past due	81,859	–	–	–	81,859
Cash and cash equivalents					
– Not yet past due	531,703	–	–	–	531,703
	689,889	–	–	78,057	767,946

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 17 to the financial statements.

** The credit quality of financial assets included in prepayments, other receivables and other assets are 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".

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations of cash flows.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and lease liabilities.

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:

	2022				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Lease liabilities	2,750	2,048	3,714	–	8,512
Trade and notes payable	44,478	108,565	7,160	–	160,203
Financial liabilities included in other payables and accruals	150,194	–	–	–	150,194
Interest-bearing bank loans	155	18,414	75,553	222,749	316,871
Due to related parties	15,318	–	–	–	15,318
	212,895	129,027	86,427	222,749	651,098

	2021				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Lease liabilities	2,006	3,333	5,014	4,572	14,925
Trade and notes payable	18,676	95,895	24,143	–	138,714
Financial liabilities included in other payables and accruals	50,456	–	–	–	50,456
Interest-bearing bank loans	–	2,897	18,698	267,767	289,362
Due to related parties	22,725	–	–	–	22,725
	93,863	102,125	47,855	272,339	516,182

33. 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 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 total borrowings divided by total equity. The gearing ratios as at the end of the reporting periods were as follows:

	2022 **RMB'000**	2021 RMB'000
Interest-bearing bank loans *(note 22)*	**293,339**	250,000
Total equity	**1,418,377**	1,551,687
Gearing ratio	**20.7%**	16.1%

34. EVENT AFTER THE REPORTING PERIOD

There were no other significant events that required additional disclosure or adjustments occurred after the end of the reporting period.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	556,842	487,604
Advance payments for property, plant and equipment and intangible assets	41,685	79,192
Right-of-use assets	10,137	12,437
Intangible assets	731,508	566,002
Investments in subsidiaries	55,166	34,480
Total non-current assets	1,395,338	1,179,715
CURRENT ASSETS		
Inventories	143,634	98,840
Trade and notes receivables	212,124	107,267
Prepayments, other receivables and other assets	45,275	71,014
Due from a subsidiary	46,098	34,904
Pledged deposits	207,160	44,853
Time deposits over three months	–	81,859
Cash and cash equivalents	232,319	503,016
Total current assets	886,610	941,753
CURRENT LIABILITIES		
Lease liabilities	7,645	4,297
Trade and notes payables	158,788	137,677
Other payables and accruals	198,447	75,384
Interest-bearing bank loans	83,184	10,000
Due to a subsidiary	9,981	–
Due to related parties	14,197	2,600
Total current liabilities	472,242	229,958
NET CURRENT ASSETS	414,368	711,795
TOTAL ASSETS LESS CURRENT LIABILITIES	1,809,706	1,891,510

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES		
Lease liabilities	–	4,504
Interest-bearing bank loans	210,000	240,000
Government grants	–	1,800
Other non-current liabilities	102,511	48,131
Total non-current liabilities	312,511	294,435
Net assets	1,497,195	1,597,075
EQUITY		
Equity attributable to owners of the parent		
Share capital	509,278	498,583
Reserves *(note)*	987,917	1,098,492
Total equity	1,497,195	1,597,075

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Other reserves RMB'000	Safety production reserve RMB'000	Accumu-lated losses RMB'000	Total RMB'000
At 1 January 2021	–	801,184	–	(675,043)	126,141
Loss and total comprehensive loss for the year	–	–	–	(184,709)	(184,709)
Capital contribution from shareholders before conversion into a joint stock company	–	896,099	–	–	896,099
Conversion into a joint stock company	965,556	(1,697,283)	–	730,926	(801)
Capital contribution from shareholders after conversion into a joint stock company	196,332	–	–	–	196,332
Exemption of payables to a shareholder	–	44,155	–	–	44,155
Appropriation to safety production reserve	–	–	2,507	(2,507)	–
Safety production reserve used	–	–	(491)	491	–
Share-based payment arrangements	–	21,275	–	–	21,275
At 31 December 2021 and 1 January 2022	**1,161,888**	**65,430**	**2,016**	**(130,842)**	**1,098,492**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**(296,616)**	**(296,616)**
Issue of shares from initial public offering	**178,461**	**–**	**–**	**–**	**178,461**
Share issue expenses	**(10,899)**	**–**	**–**	**–**	**(10,899)**
Appropriation to safety production reserve	**–**	**–**	**4,429**	**(4,429)**	**–**
Safety production reserve used	**–**	**–**	**(1,218)**	**1,218**	**–**
Share-based payment arrangements	**–**	**18,479**	**–**	**–**	**18,479**
At 31 December 2022	**1,329,450**	**83,909**	**5,227**	**(430,669)**	**987,917**

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2023.

Boan Biotech
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