***You should read the following discussion and analysis in conjunction with our audited consolidated financial information, including the notes thereto, as of and for the period ended December 31, 2018 and as of and for the year ended December 31, 2019 included in the Accountants' Report set out in Appendix I to this document. When we use the term "2018," we refer to the period started February 27, 2018 and ended December 31, 2018; and when we use the term "2019," we refer to the year ended December 31, 2019. Our audited consolidated financial information has been prepared in accordance with IFRS.***

***The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this document, including those set forth in "Risk Factors" and "Forward-Looking Statements" in this document.***

## OVERVIEW

We are a China-based ophthalmic pharmaceutical platform company dedicated to identifying, developing and commercializing first- or best-in-class ophthalmic therapies. Our vision is to provide a world-class pharmaceutical total solution to address significant unmet ophthalmic medical needs in China. We believe our platform positions us well to achieve leadership in China ophthalmology, with a significant first-mover advantage over future competitors.

During the Track Record Period, we generated revenue from the limited sales of OT-401, our Core Product, which had not been generally approved in China. We took advantage of favorable government policies to import foreign drugs not yet generally approved in China for urgent medical needs and had OT-401 admitted to the Boao Pilot Program in July 2019, and made limited sales. We have just begun to commercialize two approved drug products in China, Ou Qin and brimonidine tartrate eye drop. As such, we have never been profitable and have incurred net losses in each year since our inception.

We expect to incur significant expenses and operating losses for at least the next several years as we further our preclinical research and development efforts, continue the clinical development of, and seek regulatory approval for, our drug candidates, launch commercialization of our pipeline products, and add personnel necessary to operate our business. Subsequent to the [**REDACTED**], we expect to incur costs associated with operating

as a public company. We expect that our financial performance will fluctuate from period to period due to the development status of our drug candidates, regulatory approval timeline and commercialization of our drug candidates after approval.

## BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on February 27, 2018. Our Company, as the holding company of our business, indirectly owns Ocumension Shanghai in China that are principally engaged in identifying, developing and commercializing ophthalmic therapies. For more details, see "History, Restructuring and Corporate Structure" in this document. Our consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value at the end of each period. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of our Group are eliminated in full on consolidation.

## MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which may be beyond our control. A discussion of the key factors is set out below:

### Our Ability to Successfully Develop Our Drug Candidates

Our business and results of operations depend on our ability to successfully develop our drug candidates. As of the Latest Practicable Date, we had 13 ophthalmic drug assets in our development pipeline, including 4 advanced-stage candidates, 4 near clinical-stage candidates and 5 other preclinical-stage candidates.

We have four advanced-stage drug candidates, namely, OT-401, OT-101, OT-301 and OT-1001. Particularly, we are in the process of completing the bridging Phase III clinical trial in China for OT-401, our Core Product, and we plan to complete the clinical study report of a 12-month follow-up in the first quarter of 2022. In addition, for OT-101, subject to IND approval from the CDE, EMA and FDA, we plan to initiate an MRCT Phase III clinical trial in the United States, the EU and China in the second half of 2020, the first half of 2021 and mid 2021, respectively. For OT-301, we and Nicox plan to initiate two Phase III MRCTs in 2020 subject to IND approvals. We plan to initiate Chinese arms of two Phase III MRCTs in the fourth quarter of 2020 (having taken impact of the COVID-19 pandemic into consideration), subject to IND approvals from the NMPA. In addition, for OT-1001, we plan to initiate a confirmatory Phase III clinical trial in China in the second half of 2020 subject to IND approval. For more information on the development status of our various drug candidates, see "Business—Our Portfolio." Whether our drug candidates can demonstrate favorable safety and efficacy clinical trial results, and whether we can obtain the requisite regulatory approvals for our drug candidates in time, are crucial for our business and results of operations.

### Our Ability to Successfully Commercialize Our Commercial/Near Commercial-stage Assets

We have strategically included in our portfolio three commercial/near commercial-stage assets, namely, Ou Qin, brimonidine tartrate eye drop and 0.5% moxifloxacin eye drop. In addition, for OT-401, we have already begun making limited commercial sales under the Boao Pilot Program, and plan to continue to do so. We expect the commercial sales of these drugs to generate revenue for us in the near future. Our ability to do so is however dependent on the successful commercialization of such products. These drugs may require significant marketing efforts before we generate any revenue from product sales. If they fail to achieve the degree of market acceptance, we may not be able to generate revenue as expected. See "Business—Our Portfolio—Commercial-Stage and Near Commercial-Stage Assets" and "Risk Factors—Risks Relating to Commercialization of Our Drug Candidates."

### Cost Structure

Our business and results of operations are significantly affected by our cost structure, which comprised primarily research and development expenses and administrative expenses during the Track Record Period.

Research and development activities are central to our business. Our current research and development activities mainly relate to drug discovery, preclinical research, clinical trials and the clinical advancement of our drug candidates. See "Business—Research and Development." In 2018 and 2019, our research and development expenses accounted for 82.3% and 62.5% of our total expenses and costs (being selling expenses, research and development expenses and administrative expenses), respectively. Our research and development expenses primarily consist of upfront and milestone payments under our license agreements with in-licensing partners. In 2018 and 2019, our upfront and milestone payments accounted for 85.2% and 48.4% of our total research and development expenses. Pursuant to our license agreements with our in-licensing partners, such as EyePoint, Nicox, Senju and GTS, we have agreed to make certain payments when the in-licensed drug candidates reach different milestones during their respective development process. In addition, we have agreed to pay certain percentage of royalties on our future drug sales contemplated under the license agreements. The timing of these payments and the mix of future products sold (which may be subject to different royalties) will have an effect on our profitability. For details, see "Business—Collaboration and License Arrangements." Our research and development expenses also include (i) third-party contracting costs incurred mainly under agreements with CROs and (ii) staff costs, including salaries, welfare and share-based compensation expenses for research and development employees. We expect research and development expenses to increase for the foreseeable future as we continue to engage with in-licensing partners and make development progress to support the clinical trials of our drug candidates and as we move these drug candidates into additional clinical trials.

Our administrative expenses primarily consist of staff costs and professional fees. Other administrative expenses mainly include travel and transportation expenses and other office expenses. We expect our administrative expenses to increase in the future to support our drug development efforts and support any commercialization activities with respect to our drug candidates. We also anticipate increasing legal, compliance, accounting, insurance and investor and public relations expenses associated with being a public company in Hong Kong.

We did not incur any selling expenses in 2018. In 2019, we incurred selling expenses of RMB2.5 million. Given our robust pipeline of drug candidates from preclinical to late-stage, and our three commercial-ready or near commercial-ready assets, we are in the process of building our sales and marketing team in anticipation of new product launches in the coming years.

**Funding for Our Operations**

In 2018 and 2019, we funded our operations primarily through equity financing. Going forward, in the event of a successful commercialization of more of our drug candidates, we expect to fund our operations in part with revenue generated from sales of our drug products. However, with the continuing expansion of our business and development of new drug candidates, we may require further funding through public or private equity offerings, debt financing and other sources. Any changes in our ability to fund our operations will affect our cash flow and results of operations.

**Growth of the Chinese Ophthalmic Pharmaceutical Market**

Our financial performance and future growth depend on the overall growth of China's ophthalmic pharmaceutical market. Ophthalmology is an emerging market in China, indicating a tremendous growth potential. As living standards in China continue to rise, there is a strong, growing demand for therapeutic areas that matter greatly to the quality of life, such as eye care. According to Frost & Sullivan, the Chinese ophthalmic pharmaceutical market is expected to expand from RMB19.4 billion in 2019 to RMB40.8 billion in 2024, representing a CAGR of 16.0% from 2019, and further to RMB116.6 billion in 2030, representing a CAGR of 19.1% from 2024.

In addition, we expect to be supported by a series of favorable government policies in the near future. For example, pursuant to the Five-Year-National Plan for Eye Heath ("十三五"全國眼健康規劃(2016-2020年)), China has made great efforts in enhancing eye health in the past few decades and has been consistently encouraging the ophthalmic drug market to grow rapidly. The Chinese government has promulgated a series of policies to shorten the time for review and approval of innovative drugs. In addition, the Chinese government has also implemented a series of preferential treatments to support companies in our industry, such as grants and subsidies for research and development activities.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In the application of our accounting policies, we make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. We review the estimates and underlying assumptions on an on-going basis. We recognize revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

We believe the following accounting policies are most critical to our business operations and to an understanding of our financial condition and results of operations, and reflect the most significant judgments and estimates used in the preparation of our consolidated financial statements. Our most critical accounting policies and estimates are summarized below. See notes 4 and 5 to the Accountants' Report set out in Appendix I to this document for a detailed description of our significant accounting policies, estimates, assumptions and judgments which are important for understanding our financial condition and results of operations.

### Research and Development Expenses

We capitalize and defer research and development expenses incurred on our drug product pipelines only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and our ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. We record research and development expenses which do not meet these criteria as expenses when incurred. We assess the progress of each research and development project and determine the criterias to be met for capitalization. During the Track Record Period, we recorded all research and development costs as expenses in our consolidated statements of profit or loss.

### Share-based Payment Arrangements

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

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on our estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, we revise our estimated number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

When share options are exercised or the restricted ordinary shares are vested, the amount previously recognized in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to accumulated losses.

**Fair Value of Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss ("FVTPL")**

Our other financial assets including financial products which are measured at fair value at December 31, 2018 and 2019 are grouped under Level 3 hierarchy (as defined in note 4 to the Accountants' Report set out in Appendix I to this document). Fair value of these financial products was determined by discounted cash flow, which was estimated based on expected return, and discounted at a rate that reflects the risk of underlying investments.

In addition, we issued a series of Preferred Shares and the written Share Purchase Option (as defined in note 23 to the Accountants' Report set out in Appendix I to this document) to onshore investors during the Track Record Period. We recorded these financial instruments as financial liabilities at FVTPL for which no quoted prices in an active market exist. The fair value of the financial instruments is established by using valuation techniques which include discounted cash flow, back-solve methods and equity allocation model. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. However, it should be noted that some inputs, such as fair value of the ordinary shares of our Company, possibilities under different scenarios such as qualified public offering, liquidation and discount for lack of marketability, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it may lead to a change in the fair value of the financial liabilities at FVTPL.

In relation to the valuation of the financial assets, our Directors adopted the following procedures: (i) reviewed the terms of the financial product agreements; (ii) inquired of the professionals about the expected return rates; and (iii) re-calculated the expected market value of the financial products. Based on the above procedures, our Directors are of the view that the value of financial assets is fair and reasonable, and the financial statements of our Group are properly prepared.

In relation to the valuation of the financial liabilities, our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the terms of Preferred Shares agreements; (ii) engaged independent business valuer, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (iii) carefully considered all information especially those non-market related information input, such as fair value of the ordinary shares of our Company, possibilities under different scenarios, time to liquidation and discount for lack of marketability, which require management assessments and estimates; and

(iv) reviewed the valuation working papers and results prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable, and the financial statements of our Group are properly prepared.

Details of the fair value measurement of financial assets and financial liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of Level 3 measurements are disclosed in note 20, 23 and 30(c) to the historical financial information of Group for the Track Record Period as set out in the Accountants' Report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The reporting accountants' opinion on the historical financial information of the Group for the Track Record Period as a whole is set out on I-2 of Appendix I.

In relation to the valuation of the financial assets, the Sponsors have (i) discussed the valuation with the management of the Company; (ii) reviewed the terms of the financial product agreements; and (iii) considered the valuation methodologies adopted for the valuation and the expected return rates. In relation to the valuation analysis performed by valuer on financial liabilities at FVTPL, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) discussed with the valuer regarding its qualification and credentials of the lead partner of the valuer responsible for the valuation; (ii) obtained and reviewed the valuation analysis prepared by the valuer on the financial liabilities at FVTPL; and (iii) discussed with the management of the Company and the valuer regarding the valuation technique applied by the Group to determine such valuation. Having considered the work done by the Directors and the unqualified opinion for the historical financial information of the Group for the Track Record Period as a whole included on I-2 of Appendix I, and the relevant due diligence done as stated above, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to question the valuation analysis on the financial assets or the valuation analysis performed by the valuer on the financial liabilities at FVTPL.

**Intangible Assets**

An internally generated intangible asset arising from development activities is recognized if, and only if, we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and our ability to use or sell the intangible asset, how the asset will generate probable future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure during the development. The amount initially recognized for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Development expenditure which does not meet these criteria is recognized in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any).

Intangible assets with finite useful lives, which are acquired separately, are carried at costs less accumulated amortization and any accumulated impairment losses.

**Adoption of IFRS 9, 15 and 16**

For the purpose of preparing and presenting our historical financial information, we have consistently adopted the IFRSs issued by the IASB which are effective for the accounting period beginning on January 1, 2019, including IFRS 16 Leases, or IFRS 16, during the Track Record Period. Upon application of IFRS 16, we recognized right-of-use assets and corresponding lease liabilities in respect of all leases, except for short-term leases. For details, please refer to note 4 to the Accountants' Report as set out in Appendix I to this document. Our Directors are of the view that the adoption of IFRS 9, IFRS 15 and IFRS 16 had no material impact on the Group's financial performance and position as well as key ratios during the Track Record Period.

## DISCUSSION OF CERTAIN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE EXPENSES

The following table sets forth the components of our consolidated statements of profit or loss and other comprehensive expenses for the periods indicated:

| | Period ended December 31, 2018 | Year ended December 31, 2019 |
|---|---|---|
| | *(RMB in thousands)* | |
| Revenue | – | 190 |
| Cost of sales | – | (10) |
| Gross profits | – | 180 |
| Other income | 25 | 3,877 |
| Other gains and losses | (159,977) | (1,170,347) |
| Selling expenses | – | (2,479) |
| Research and development expenses | (40,679) | (99,464) |
| Administrative expenses | (8,769) | (57,185) |
| Finance costs | (5) | (63) |
| Loss before tax | (209,405) | (1,325,481) |
| Income tax expense | – | – |
| **Loss and total comprehensive expenses for the period/year** | (209,405) | (1,325,481) |
| Non-IFRS adjusted net loss for the period/year[(1)] | (46,988) | (82,430) |

*Note:*

(1) Non-IFRS adjusted net loss for the period/year was calculated by taking loss and total comprehensive expenses for the period/year and adding back (i) fair value loss of financial liabilities at FVTPL and (ii) share-based payment expenses. Non-IFRS adjusted net loss for the period/year is not a measure required by or presented in accordance with IFRS. We believe that such non-IFRS measure facilitates comparisons of our operating performance from period to period by eliminating impacts of such non-cash items (and, for fair value loss of financial liabilities at FVTPL, also an item that pertains to financial instruments that will cease upon [**REDACTED**]) that our management considers to be not indicative of our operating performance and provides useful information to [**REDACTED**] and others in evaluating our operating results in the same manner of our management. The use of non-IFRS adjusted net loss for the period/year has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See "—Non-IFRS Measure." The following table reconciles our non-IFRS adjusted net loss for the period/year with our loss and total comprehensive expenses for the period/year, which is the most directly comparable financial measure calculated and presented in accordance with IFRS:

| | **Period ended December 31, 2018** | **Year ended December 31, 2019** |
|---|---|---|
| | *(RMB in thousands)* | |
| **Loss and total comprehensive expenses for the period/year** | (209,405) | (1,325,481) |
| ***Add*** | | |
| Fair value loss of financial liabilities at FVTPL | 158,736 | 1,196,248 |
| Share-based payment expenses | 3,681 | 46,803 |
| **Non-IFRS adjusted net loss for the period/year** | (46,988) | (82,430) |

**Revenue**

We did not generate any revenue in 2018. In 2019, we recorded revenue of RMB0.2 million from the limited sales of OT-401 under the Boao Pilot Program.

### Cost of Sales

We did not incur any cost of sales in 2018 since we did not have revenue during this period. In 2019, we incurred cost of sales of RMB10,000, corresponding to the purchase from EyePoint of OT-401 that we sold in the year.

### Gross Profit

Our gross profit represents our revenue less cost of sales. Our gross profit margin represents our gross profit as a percentage of our revenue. We did not generate any revenue in 2018. In 2019, our gross profit was RMB0.2 million, with a gross profit margin of 94.7%.

### Other Income

Our other income represents bank interest income arising from our bank deposit. In 2018 and 2019, we had bank interest income of RMB25,000 and RMB3.9 million, respectively.

### Other Gains and Losses

Other gains and losses primarily consist of fair-value loss of financial liabilities at FVTPL, representing the changes in fair value of the conversion option associated with the Preferred Shares and Share Purchase Option. For details, please refer to note 8 to the Accountants' Report as set out in Appendix I to this document. Other gains and losses also consist of (i) net foreign exchange gains or losses in connection with bank balance and cash denominated in U.S. dollars and (ii) gain from changes in fair value of other financial assets, reflecting realized and unrealized investment gains from wealth management products we purchased by using our free cash. For details of the wealth management products we purchased, see "—Discussion of Certain Key Balance Sheet Items—Current Assets and Liabilities—Other Financial Assets." The following table sets forth the components of our other gains and losses for the periods indicated:

| | Period ended December 31, 2018 | Year ended December 31, 2019 |
|---|---|---|
| | *(RMB in thousands)* | |
| Net foreign exchange (loss) gain | (1,342) | 15,122 |
| Gain from changes in fair value of other financial assets | | |
| - realized | 40 | 10,181 |
| - unrealized | 61 | 598 |
| Fair value loss of financial liabilities at FVTPL | (158,736) | (1,196,248) |
| **Total** | (159,977) | (1,170,347) |

We have implemented a series of internal control policies and rules regarding investment to ensure that the purpose of investment is to preserve capital and liquidity until free cash is used in our primary business and operation. Our finance department is responsible for managing our investment activities, and investment decisions of our finance department are subject to review and approval of our management team. Prior to making a proposal to invest in financial products, we assess and ensure that there remains sufficient working capital for our business needs, operating activities, research and development and capital expenditures even after purchasing such financial products. We adopt a prudent approach in selecting financial products. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, such as duration of investment and the expected returns. To control our risk exposure, we have in the past sought, and may continue in the future to seek, principal-protected investments and other low-risk financial products. Additionally, we mainly invest in financial products offered by reputable commercial banks or reputable financial institutions. We generally select financial products with terms of no longer than 12 months or with flexible redemption options. After making an investment, we closely monitor its performance and fair value on a regular basis.

**Selling Expenses**

We did not incur any selling expenses in 2018. In 2019, our selling expenses primarily consisted of (i) staff costs, including salaries and welfare for sales and marketing employees and (ii) marketing-related expenses incurred in connection with our sales and marketing activities. The following table sets forth the components of our selling expenses for the periods indicated:

| | Period ended December 31, 2018 | Year ended December 31, 2019 |
|---|---|---|
| | *(RMB in thousands)* | |
| Staff costs | – | 1,912 |
| Marketing-related expenses | – | 212 |
| Depreciation and amortization | – | 12 |
| Others | – | 343 |
| **Total** | – | 2,479 |

**Research and Development Expenses**

Our research and development expenses primarily consist of (i) upfront and milestone payments under our license agreements with in-licensing partners; (ii) third-party contracting costs incurred mainly under agreements with CROs; and (iii) staff costs, including salaries, welfare and share-based compensation expenses, for research and development personnel. The following table sets forth the components of our research and development expenses for the periods indicated:

| | Period ended December 31, 2018 | Year ended December 31, 2019 |
|---|---|---|
| | *(RMB in thousands)* | |
| Upfront and milestone payments | 34,648 | 48,119 |
| Third-party contracting costs | 3,609 | 31,161 |
| Staff costs | 2,047 | 16,341 |
| Depreciation and amortization | 5 | 108 |
| Others | 370 | 3,735 |
| **Total** | 40,679 | 99,464 |

**Administrative Expenses**

Our administrative expenses primarily consist of (i) staff costs, including salaries, welfare and share-based compensation expenses, for administrative employees and (ii) professional fees incurred under agreements with legal counsel, accountants and other professional service providers. The following table sets forth the components of our administrative expenses for the periods indicated:

| | Period ended December 31, 2018 | Year ended December 31, 2019 |
|---|---|---|
| | *(RMB in thousands)* | |
| Staff costs | 5,140 | 48,860 |
| Professional fees | 2,840 | 6,416 |
| Depreciation and amortization | 59 | 1,088 |
| Others | 730 | 821 |
| **Total** | 8,769 | 57,185 |

### Finance Costs

Our finance costs represent the interest expenses on lease liabilities.

## TAXATION

### Cayman Islands

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly are exempted from Cayman Islands income tax.

### Hong Kong

Our subsidiary, Ocumension Hong Kong, is subject to two-tiered tax rates since its establishment on assessable profits earned in Hong Kong where the profits tax rate for the first HK$2 million of assessable profits is subject to profits tax rate of 8.25% and the assessable profits above HK$2 million is subject to profits tax rate of 16.5%. Ocumension Hong Kong had no tax assessable profit during the Track Record Period.

### China

Our subsidiaries in China are subject to enterprise income tax on taxable income at a basic tax rate of 25%.

The tax charge for the Track Record Period can be reconciled to the loss per the consolidated statements of profit or loss and other comprehensive expenses as follows:

| | **Period Ended December 31, 2018** | **Year ended December 31, 2019** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Loss before tax | (209,405) | (1,325,481) |
| Income tax expense calculated at 25% | (52,351) | (331,370) |
| Tax effect of expense that are not deductible for tax purpose[(1)] | 51,354 | 316,845 |
| Tax effect of tax losses not recognised | 976 | 14,072 |
| Tax effect of deductible temporary differences not recognised | 21 | 453 |
| Income tax expenses recognised in profit or loss | – | – |

*Note:*

(1) The tax effect of expenses that are not deductible for tax purpose mainly comprised of (i) fair value changes of financial liabilities at FVTPL; (ii) share-based payments; and (iii) R&D expenses incurred in the Company.

## PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

### Year Ended December 31, 2019 to Period Ended December 31, 2018

#### *Revenue*

Our revenue increased from nil in 2018 to RMB0.2 million in 2019, which was related to the limited sales of OT-401 under the Boao Pilot Program. We had OT-401 admitted under the Boao Pilot Program in July 2019 and made limited sales of OT-401 to a customer in Hainan, the designated procurement agent for Boao Super Hospital, where patients were injected. See "Business—Customer."

#### *Cost of Sales*

Our cost of sales increased from nil in 2018 to RMB10,000 in 2019, which mainly consisted of cost incurred for the purchase of OT-401 from EyePoint. See "Business—Collaboration and License Arrangements—Collaboration with EyePoint—License of OT-401 (YUTIQ)."

#### *Other Income*

Our other income increased significantly from RMB25,000 in 2018 to RMB3.9 million in 2019. The increase in other income was primarily attributable to an increase in cash balance in our bank accounts as a result of the deposit of the proceeds from the Series A and Series B equity financing, which also led to a higher average cash balance in 2019.

#### *Other Gains and Losses*

Our other losses increased from RMB160.0 million in 2018 to RMB1,170.3 million in 2019. The increase in losses was primarily attributable to an increase of RMB1,037.5 million in fair value loss of financial liabilities at FVTPL as a result of the issuance of Preferred Shares and Share Purchase Option, and the increase in company valuation and probability of [**REDACTED**]. This increase was partially offset by (i) net foreign exchange gain of RMB15.1 million, reflecting the impact of appreciation of U.S. dollars against the Renminbi on our funds that are denominated in U.S. dollars and (ii) an increase in gains from changes in fair value of other financial assets, reflecting the investment income we received or expect to receive from certain wealth management products we purchased.

***Selling Expenses***

Our selling expenses increased from nil in 2018 to RMB2.5 million in 2019. This increase was primarily attributable to (i) an increase in our sales and marketing employee headcount and (ii) an increase in marketing–related expenses, in all cases relating to the limited sales of OT-401 since August 2019.

***Research and Development Expenses***

Our research and development expenses increased by 144.5% from RMB40.7 million in 2018 to RMB99.5 million in 2019. This increase was primarily attributable to (i) an increase of RMB27.6 million in third-party contracting costs mainly as we engaged CROs to conduct preclinical and clinical due diligence and Phase III clinical trials for OT-401 and preclinical studies for OT-101 and other drug candidates in our pipeline; (ii) an increase of RMB14.3 million in staff costs as a result of the increases in share-based compensation expenses and employee headcount for research and development; and (iii) an increase of RMB13.5 million in upfront and milestone payment in relation to OT-701, OT-503 and OT-202.

***Administrative Expenses***

Our administrative expenses increased by 552.1% from RMB8.8 million in 2018 to RMB57.2 million in 2019. This was primarily attributable to (i) an increase of RMB43.7 million in staff costs as a result of the increases in share compensation expenses and employee headcount for administration to support our business growth and (ii) an increase of RMB3.6 million in professional fees for legal, accounting and IT services.

***Finance Costs***

Our finance costs increased from RMB5,000 in 2018 to RMB63,000 in 2019. This was primarily attributable to an increase of interest expenses on lease liabilities as we entered into new lease agreements to rent more office space.

## NON-IFRS MEASURE

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use a non-IFRS measure, adjusted net loss for the period/year, as an additional financial measure, which is not required by, or presented in accordance with, IFRS. We believe that such non-IFRS measure facilitates comparisons of our operating performance from period to period by eliminating impacts of such non-cash items (and, for fair value loss of financial liabilities at FVTPL, also an item that pertains to financial instruments that will cease upon [**REDACTED**]) that our management considers to be not indicative of our operating performance and provides useful information to investors and others in evaluating our operating results in the same manner of our management. However, our presentation of the adjusted net loss for the period/year may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation, or as substitute for analysis of, our results of operations or financial position as reported under IFRS. We define adjusted net loss for the period/year as loss and total comprehensive expenses for the period/year adjusted by adding back (i) fair value loss of financial liabilities at FVTPL and (ii) share-based payment expenses. The following table reconciles our non-IFRS adjusted net loss for the period/year with our loss and total comprehensive expenses for the period/year, which is the most directly comparable financial measure calculated and presented in accordance with IFRS:

| | Period ended December 31, 2018 | Year ended December 31, 2019 |
|---|---|---|
| | *(RMB in thousands)* | |
| **Loss and total comprehensive expenses for the period/year** | (209,405) | (1,325,481) |
| ***Add*** | | |
| Fair value loss of financial liabilities at FVTPL | 158,736 | 1,196,248 |
| Share-based payment expenses | 3,681 | 46,803 |
| **Non-IFRS adjusted net loss for the period/year** | (46,988) | (82,430) |

## DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The following table sets forth selected items from our consolidated statements of financial position as of the dates indicated, which have been extracted from the Accountants' Report set out in Appendix I to this document:

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *(RMB in thousands)* | |
| Total non-current assets | 1,626 | 27,704 |
| Total current assets | 92,996 | 1,261,993 |
| **Total assets** | 94,622 | 1,289,697 |
| Total current liabilities | 4,054 | 39,435 |
| Total non-current liabilities | 867,872 | 3,318,750 |
| **Total liabilities** | 871,926 | 3,358,185 |
| Share capital | 2 | 4 |
| Reserves | (821,098) | (2,068,492) |
| Equity attributable to owners of the Company | (821,096) | (2,068,488) |
| Non-controlling interests | 43,792 | – |
| **Total Deficits** | (777,304) | (2,068,488) |

### Current Assets and Liabilities

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

| | As of December 31, | | As of May 31, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *(RMB in thousands)* | | |
| | | | *(unaudited)* |
| **Current assets** | | | |
| Inventories | – | 259 | 237 |
| Trade and other receivables | 1,099 | 13,581 | 137,197 |
| Other financial assets | 66,268 | 497,653 | 297,609 |
| Time deposit over three months | – | 558,096 | – |
| Bank balances and cash | 25,629 | 192,404 | 759,663 |
| **Total current assets** | 92,996 | 1,261,993 | 1,194,706 |
| **Current liabilities** | | | |
| Trade and other payables | 3,452 | 38,176 | 36,296 |
| Lease liabilities | 602 | 1,259 | 703 |
| **Total current liabilities** | 4,054 | 39,435 | 36,999 |
| **Net current assets** | 88,942 | 1,222,558 | 1,157,707 |

***Inventories***

We did not have any inventories as of December 31, 2018. We had inventories of RMB0.3 million as of December 31, 2019 as we started to purchase OT-401 from EyePoint after OT-401 was approved for treating patients under the Boao Pilot Program in August 2019. We regularly monitor our inventories to reduce the risk of overstocking and endeavour to keep an optimal inventory level in line with the expected injections in the near term. We assigned a third party in Hainan to manage our inventories, and its warehouse personnel are responsible for the inspection, storage and delivery of OT-401.

***Trade and Other Receivables***

Our trade and other receivables primarily consist of (i) trade receivables from our only customer during the Track Record Period; (ii) prepayments for research and development services; (iii) interest receivable; and (iv) value-added tax recoverable. The following table sets forth the components of our trade and other receivables as of the dates indicated:

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *(RMB in thousands)* | |
| Trade receivable | – | 96 |
| Other receivables | | |
| Prepayments for research and development services | 944 | 7,365 |
| Interest receivable | – | 3,877 |
| Value added tax recoverable | 52 | 1,739 |
| Utility and rental deposits | 85 | 409 |
| Others | 18 | 95 |
| **Total** | 1,099 | 13,581 |

Our trade and other receivables increased from RMB1.1 million as of December 31, 2018 to RMB13.6 million as of December 31, 2019, primarily attributable to (i) an increase in prepayments for research and development services from RMB0.9 million as of December 31, 2018 to RMB7.4 million as of December 31, 2019 as we increased the purchase of preclinical and clinical research and development services; (ii) RMB3.9 million in interest receivable due to an increase in our bank deposits as of December 31, 2019; and (iii) an increase of RMB1.7 million in value-added tax recoverable as of December 31, 2019.

***Other Financial Assets***

Other financial assets measured at FVTPL represented the wealth management products we purchased. During the Track Record Period, we purchased such wealth management products using our free cash. These wealth management products comprised risk-free or low-risk financial products with short-term or flexible redemption options issued by commercial banks or reputable financial institutions in China and the United States. The expected rate of return ranged from 1% to 4.25% per annum as of December 31, 2018 and 2019.

Our other financial assets increased from RMB66.3 million as of December 31, 2018 to RMB497.7 million as of December 31, 2019, primarily due to an increase in balance of our wealth management products. The expected rate of return of the wealth management products was determined by the market price of the underlying financial instruments, including bonds, debentures and other financial assets. Prior to making an investment, we assess and ensure that there remains sufficient working capital for our business needs, operating activities, research and development and capital expenditures even after purchasing such financial products.

***Time Deposit Over Three Months***

Our time deposit over three months increased significantly from nil as of December 31, 2018 to RMB558.1 million as of December 31, 2019, which was mainly attributable to the funds we received from our Series A and Series B equity financing.

***Bank Balances and Cash***

Our bank balances and cash increased significantly from RMB25.6 million as of December 31, 2018 to RMB192.4 million as of December 31, 2019, which was mainly attributable to the funds we received from our Series A and Series B equity financing.

***Trade and Other Payables***

Our trade and other payables primarily consist of (i) trade payables; (ii) payables for intangible asset, and research and development expenses and (iii) payroll payables. The following table sets forth the components of our trade and other payables as of the dates indicated:

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *(RMB in thousands)* | |
| Trade payables | 13 | 3,940 |
| Payables for | | |
| – intangible asset, and research and development expenses | 1,920 | 29,138 |
| – legal and professional fees | 265 | 309 |
| – others | 95 | 495 |
| Payroll payables | 1,109 | 4,094 |
| Other tax payables | 50 | 200 |
| **Total** | 3,452 | 38,176 |

Our trade and other payables increased significantly from RMB3.5 million as of December 31, 2018 to RMB38.2 million as of December 31, 2019, primarily because (i) an increase in payables for intangible asset and accrual research and development expenses from RMB1.9 million as of December 31, 2018 to RMB29.1 million as of December 31, 2019 in line with our increased research and development activities; (ii) an increase of RMB3.9 million in trade payables in connection with the increase in our research and development activities; and (iii) an increase of RMB3.0 million in payroll payables in line with an increase in the number of our employees.

## KEY FINANCIAL RATIO

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

| | As of December 31, | |
|---|---|---|
| | **2018** | **2019** |
| Current ratio[(1)] | 22.9 | 32.0 |

*Note:*

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

Our current ratio increased from 22.9 as of December 31, 2018 to 32.0 as of December 31, 2019 because our current assets increased by RMB1,169.0 million as a result of the increases in time deposit over three months, other financial assets, bank balances and cash, and trade and other receivables while our current liabilities increased at a relatively slower rate.

## LIQUIDITY AND CAPITAL RESOURCES

### Working Capital

Our primary uses of cash relate to the development of our drug candidates and our payment for the purchase of equipment. During the Track Record Period, we primarily funded our working capital requirement through equity financing. We also generated cash from the limited sales of OT-401 under the Boao Pilot Program. We monitor and maintain a level of cash and cash equivalents deemed adequate to finance our operations and mitigate the effects of fluctuations in cash flows. As our business develops and expands, we expect to generate more cash from our operating activities, through increasing sales revenue of the existing commercialized products and by launching new products. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of our bank balances and cash and net [**REDACTED**] from the [**REDACTED**]. As of December 31, 2019, our cash and cash equivalents amounted to RMB192.4 million.

### Cash Operating Costs

The following table provides information regarding our cash operating costs for the periods indicated:

| | Period ended December 31, 2018 | Year ended December 31, 2019 |
|---|---|---|
| | *(RMB in thousands)* | |
| **R&D costs** | | |
| *R&D Costs for Core Product* | | |
| Staff costs | 942 | 4,029 |
| Clinical trial expenses | – | 10,357 |
| Agency and consulting fees[(1)] | 140 | 2,062 |
| Raw material costs | – | 459 |
| Upfront and milestone payments | 11,657 | 6,892 |
| Others | – | 289 |
| Subtotal | 12,739 | 24,088 |
| *R&D Costs for Other Product Candidates* | | |
| Staff costs | 667 | 3,847 |
| Clinical trial expenses | 206 | 3,351 |
| Agency and consulting fees[(1)] | 2,315 | 17,899 |
| Raw material costs | – | 154 |
| Upfront and milestone payments | 22,991 | 41,315 |
| Others | – | 37 |
| Subtotal | 26,179 | 66,603 |
| Total R&D costs | 38,918 | 90,690 |
| Workforce employment[(2)] | 3,293 | 17,208 |
| Product marketing | – | 241 |
| Direct production costs | – | – |
| Non-income taxes, royalties and other governmental charges | – | – |
| Contingency allowances | – | – |

*Notes:*

(1) Represents agency and consulting fees paid for CMC and regulatory affairs related to drug registration.

(2) Represents total staff costs mainly including salaries and bonus.

## Cash Flows

The following table sets forth the components of our consolidated statements of cash flows for the periods indicated:

| | Period ended December 31, 2018 | Year ended December 31, 2019 |
|---|---|---|
| | *(RMB in thousands)* | |
| Operating cash flow before movements in working capital | (45,703) | (108,948) |
| Total movements in working capital | 2,353 | 860 |
| Net cash used in operating activities | (43,350) | (108,088) |
| Net cash used in investing activities | (66,660) | (979,917) |
| Net cash from financing activities | 136,981 | 1,241,625 |
| Net increase in cash and cash equivalents | 26,971 | 153,620 |
| Cash and cash equivalents at beginning of the period/year | – | 25,629 |
| Effects of exchange rate changes | (1,342) | 13,155 |
| Cash and cash equivalents at the end of the period/year | 25,629 | 192,404 |

## Operating Activities

Since inception, we have incurred negative cash flows from our operations. Substantially of our operating cash outflows have resulted from our research and development expenses and administrative expenses. We monitor and maintain a level of cash and cash equivalents deemed adequate to finance our operations and mitigate the effects of fluctuations in cash flows. As our business develops, we expect to generate more cash flow from operations, through launching and commercializing products, such as Ou Qin and brimonidine tartrate eye drop, which we launched in April 2020 and March 2020, respectively.

In 2019, our net cash used in operating activities was RMB108.1 million, primarily reflecting loss before tax of RMB1,325.5 million, negatively adjusted by (i) net unrealized foreign exchange gain of RMB13.1 million; (ii) gains from changes in fair value of other financial assets of RMB10.8 million; and (iii) bank interest income of RMB3.9 million, and positively adjusted by (i) loss on changes in fair value of financial liabilities at FVTPL of RMB1,196.2 million; (ii) share-based payment expenses of RMB46.8 million; and (iii) an increase in trade and other payables of RMB9.7 million.

In 2018, our net cash used in operating activities was RMB43.4 million, primarily reflecting loss before tax of RMB209.4 million, positively adjusted by loss on changes in fair value of financial liabilities at FVTPL of RMB158.7 million.

**Investing Activities**

Our net cash used in investing activities were primarily for placement of other financial assets and placement of time deposit. We also generated inflows from redemption of other financial assets and interest received from banks.

In 2019, our net cash used in investing activities was RMB979.9 million, which was primarily attributable to (i) RMB1,482.2 million in placement of other financial assets and (ii) RMB558.1 million in placement of time deposit, partially offset by RMB1,061.6 million in redemption of other financial assets.

In 2018, our net cash used in investing activities was RMB66.7 million, which was primarily attributable to RMB102.9 million in placement of other financial assets, partially offset by RMB36.7 million in redemption of other financial assets.

**Financing Activities**

Our net cash from financing activities was primarily in the form of proceeds from issuance of Series A Preferred Shares and Series B Preferred Shares.

In 2019, our net cash from financing activities was RMB1,241.6 million, which was primarily attributable to (i) RMB1,240.7 million in proceeds from issuance of Series B Preferred Shares and (ii) RMB72.7 million in proceeds from issuance of Series A Preferred Shares, partially offset by RMB70.7 million acquisition of additional equity interests in a subsidiary, representing the share transfer arrangement in which onshore PRC investors agreed to transfer their equity interests in Ocumension Shanghai to Ocumension Hong Kong. For details, see "History, Restructuring and Corporate Structure—Major Corporate Development and Shareholding Changes of Our Group—Ocumension Shanghai."

In 2018, our net cash from in financing activities was RMB137.0 million, which was primarily attributable to (i) RMB68.7 million in proceeds from issuance of Series A Preferred Shares and (ii) RMB68.3 million in capital injection to Ocumension Shanghai and issuance of Share Purchase Option. For details, see "History, Restructuring and Corporate Structure—Major Corporate Development and Shareholding Changes of Our Group—Ocumension Shanghai."

## INDEBTEDNESS

As of December 31, 2018 and 2019 and May 31, 2020, except as disclosed in the table below, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees, litigations or claims of material importance, pending or threatened against any member of our Group or other material contingent liabilities. In addition, as of May 31, 2020, we did not have any unutilized bank facilities. We adopted IFRS 16 in the preparation of the historical financial information through the Track Record Period. As of December 31, 2018 and 2019 and May 31, 2020, we pledged our rental deposits to secure outstanding unpaid contractual lease payments. Since December 31, 2019 and up to May 31, 2020, the latest practicable date for the purpose of this indebtedness statement, there had been no material adverse change to our indebtedness.

| | As of December 31, | | As of May 31, |
|---|---|---|---|
| | 2018 | 2019 | 2020 |
| | *(RMB in thousands)* | | |
| | | | *(unaudited)* |
| **Current** | | | |
| Lease liabilities (secured and unguaranteed) | 602 | 1,259 | 703 |
| **Non-current** | | | |
| Financial liabilities at fair value through profit or loss (unsecured and unguaranteed) | 867,348 | 3,318,750 | 3,341,867 |
| Lease liabilities (secured and unguaranteed) | 524 | – | – |
| **Total** | 868,474 | 3,320,009 | 3,342,570 |

## WORKING CAPITAL CONFIRMATION

The Directors are of the opinion that, taking into account the financial resources available to our Group, including cash and cash equivalents, internally generated funds and the estimated net [**REDACTED**] from the [**REDACTED**], we have sufficient working capital to cover at least 125% of our costs, including research and development expenses, business development and marketing expenses, and administrative and operating costs, for at least the next 12 months from the date of this document.

Our cash burn rate refers to the average monthly (i) net cash used in operating activities, which includes research and development expenses, and (ii) capital expenditures. Assuming an average cash burn rate going forward of 4.5 times the level in 2019, we estimate that our cash

and cash equivalents and short-term investments (including time deposit over three months and other financial assets) as of December 31, 2019 will be able to maintain our financial viability for 30.0 months or, if we take into account 10% of the estimated net [**REDACTED**] from the [**REDACTED**] (namely, the portion allocated for our working capital and other general corporate purposes), 33.7 months or, if we also take into account the estimated net [**REDACTED**] from the [**REDACTED**], 67.3 months. We will continue to monitor our cash flows from operations closely and expect to raise our next round of financing, if needed, with a minimum buffer of 12 months.

## CAPITAL EXPENDITURE

In 2018 and 2019, our cash payment of leasehold improvement and equipment totaled RMB0.3 million and RMB0.8 million, respectively. Our capital expenditure during the Track Record Period primarily related to leasehold improvement and purchase of equipment. We funded our capital expenditure requirements during the Track Record Period mainly from equity financing.

We expect that our capital expenditure in 2020 and 2021 will primarily consist of purchase of machinery, equipment and leasehold improvement. We plan to fund our planned capital expenditure using our cash at bank and the net [**REDACTED**] received from the [**REDACTED**]. For more details, see "Future Plans and Use of [**REDACTED**]" in this document. We may reallocate the fund to be utilized on capital expenditure based on our ongoing business needs.

## CONTRACTUAL COMMITMENT

### Lease Commitment

We entered into short-term leases for office premises and office equipment. As of December 31, 2018 and 2019, the outstanding lease commitment relating to these office premises and office equipment was RMB0.2 million and RMB1.1 million, respectively.

### Capital Commitment

As of December 31, 2019, we did not have any capital commitment.

## CONTINGENT LIABILITIES

As of December 31, 2018 and 2019, we did not have any contingent liabilities. We confirm that there had been no material changes or arrangements to our contingent liabilities as of the Latest Practicable Date.

## OFF-BALANCE SHEET ARRANGEMENTS

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheets.

## MARKET AND OTHER FINANCIAL RISKS

We are exposed to a variety of market and other financial risks, including currency risk, interest rate risk, other price risk, credit risk and liquidity risk. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. As of the Latest Practicable Date, we did not hedge or consider it necessary to hedge any of these risks. See note 30(b) to the Accountants' Report set out in Appendix I to this document for more information. The discussion below provides a summary of our market and other financial risks.

### Market Risks

#### *Currency Risk*

Certain of our time deposits, bank balances and cash, other financial assets, trade and other receivables, trade and other payables, Preferred Shares and gross obligation from Share Purchase Option written are denominated in foreign currencies, and are exposed to foreign currency risk. We currently do not have a foreign currency hedging policy. However, we monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. For further details, see note 30(b)(i) to the Accountants' Report set out in Appendix I to this document.

#### *Interest Rate Risk*

We are exposed to fair value interest rate risk in relation to our lease liabilities, fixed-rate time deposits and bank deposits. We currently do not have an interest rate hedging policy to mitigate interest rate risk. Nevertheless, we monitor interest rate exposure and will consider hedging significant interest rate risk should the need arise. We are also exposed to cash flow interest rate risk in relation to our variable-rate bank balances. Our cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on our bank balances.

#### *Other Price Risk*

We are exposed to other price risk arising from Preferred Shares and gross obligation from Share Purchase Option, which were classified as financial liabilities at FVTPL. For further details, see note 30(b)(iii) to the Accountants' Report set out in Appendix I to this document.

### Credit Risk

We are exposed to credit risk which is arising from the amount of each class of financial assets. We do not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

We have applied the simplified approach in IFRS 9 to measure the loss allowance. We have concentration of credit risk as 100% of our trade receivables were due from a reputable pharmaceutical company. In order to minimize the credit risk with customers, we have delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, we use an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. For further details, see note 30(b) to the Accountants' Report set out in Appendix I to this document.

### Liquidity Risk

To manage our liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. We rely on the issuance of Preferred Shares as a signification source of liquidity. For further details, see note 30(b) to the Accountants' Report set out in Appendix I to this document.

## TRANSACTIONS WITH RELATED PARTIES

The following table sets forth our transactions with related parties for the periods indicated:

| | Period ended December 31, 2018 | Year ended December 31, 2019 |
|---|---|---|
| | *(RMB in thousands)* | |
| 6 Dimensions Capital, L.P. | 397 | – |
| Frontline BioVentures (Shanghai) Limited | 474 | – |
| **Total** | 871 | – |

We entered into transactions with related parties at the inception of our Company. 6 Dimensions Capital, L.P. and Frontline BioVentures (Shanghai) Limited made certain payments on behalf of us, such as payments for consulting fees and payments for research and development services to support our incubation team. These transactions were one-off in nature and we repaid such amounts in full in 2018.

## DIVIDEND

We are a holding company incorporated in the Cayman Islands. We have never declared or paid any dividends on our ordinary shares or preferred shares. We may need dividends and other distributions on equity from our PRC subsidiaries to satisfy our liquidity requirements. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of their respective registered capital. Our PRC subsidiaries may also allocate a portion of its after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends. Furthermore, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements we currently have in place in a manner that would materially and adversely affect our PRC subsidiaries' ability to pay dividends and other distributions to us.

We currently intend to retain all available funds and any future earnings, if any, to fund the research and development of our drug candidates and we do not anticipate paying any cash dividends in the foreseeable future. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. The declaration and payment of any dividends in the future will be determined by our Board of Directors, in its discretion, and will depend on a number of factors, including our earnings, capital requirements, overall financial conditions and contractual restrictions. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. As advised by our Cayman Islands counsel, under the Cayman Islands law a company may declare and pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be declared or paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. [**REDACTED**] should not purchase our Shares with the expectation of receiving cash dividends.

## DISTRIBUTABLE RESERVES

As of December 31, 2019, we did not have any distributable reserves.

## [**REDACTED**] EXPENSES

[**REDACTED**] expenses to [**REDACTED**] estimated to be approximately HK$[**REDACTED**] million (including [**REDACTED**], assuming an [**REDACTED**] of HK$[**REDACTED**] per Share, being the mid-point of the indicative [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per Share), assuming no exercise of to the [**REDACTED**]. Among such expenses, nil was recognized and charged to our consolidated statements of profit or loss in 2018 and 2019. After December 31, 2019, approximately HK$[**REDACTED**] million is expected to be charged to our consolidated statements of profit or loss, and approximately HK$[**REDACTED**] million is expected to be accounted for as a deduction from equity upon the [**REDACTED**]. The [**REDACTED**] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

[**REDACTED**]

[**REDACTED**]

## NO MATERIAL ADVERSE CHANGE

Save for the subsequent events as described in note 35 to the Accountants' Report in Appendix I to this document, our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position since December 31, 2019 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since December 31, 2019 which would materially affect the information shown in our consolidated financial statements included in the Accountants' Report in Appendix I to this document.

## DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.