Zai Lab Limited
再鼎醫藥有限公司 *
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 9688)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

Zai Lab Limited, together with its subsidiaries (collectively, the "**Company**" or "**Zai Lab**" or "**we**" or "**us**"), hereby announces the consolidated results of the Company for the year ended December 31, 2022 (the "**Reporting Period**"), together with the comparative figures for the year ended December 31, 2021, which have been prepared in accordance with generally accepted accounting principles in the United States (the "**U.S. GAAP**") and reviewed by the audit committee (the "**Audit Committee**") of the board of directors (the "**Board**" or "**Directors**") of the Company.

FINANCIAL HIGHLIGHTS

Year ended December 31, 2022 vs. year ended December 31, 2021 (in U.S. dollars ("$"))

- Total revenues increased by $70.7 million, or 49.0%, to $215.0 million. Product revenue increased by $68.6 million, or 47.6%, to $212.7 million.
- Total expenses decreased by $225.0 million, or 26.6%, to $619.4 million.
- Research and development expenses decreased by $286.9 million, or 50.0%, to $286.4 million.
- Net loss decreased by $261.2 million, or 37.1%, to $443.3 million.
- Basic and diluted loss per share was $0.46, a decrease of 38.9% from $0.76.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Zai Lab Limited

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Zai Lab Limited and subsidiaries (the "**Company**") as of December 31, 2022, the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity, and cash flows for the year ended December 31, 2022, and the related notes and schedule listed in the Schedule I (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and the results of its operations and its cash flows for the year ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

The consolidated financial statements of the Company as of and for the year ended December 31, 2021, were audited by other auditors in accordance with Hong Kong Standards on Auditing whose report dated March 1, 2022, expressed an unmodified opinion on those statements.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the U.S. Public Company Accounting Oversight Board ("**PCAOB**") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the U.S. Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of accrued preclinical and clinical trial expenses

As discussed in Note 2 to the consolidated financial statements, the Company's research and development expenses include costs associated with payments to contract research organizations ("**CROs**") and contract manufacturing organizations ("**CMOs**") for various preclinical and clinical trial activities. Expenses related to preclinical and clinical trial activities are accrued based on the Company's estimates of the actual services performed by the CROs and CMOs. As disclosed in the consolidated financial statements, the Company recorded $62.9 million in accounts payable and $65.8 in other current liabilities, which included the accrued preclinical and clinical trial expenses.

We identified the evaluation of accrued preclinical and clinical trial expenses as a critical audit matter. Specifically, evaluating the estimate of services performed for certain research and development projects at year-end required subjective auditor judgment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to accrued preclinical and clinical trial expenses. This included controls related to the estimation of the services performed by the CROs and CMOs during the period that are included in accounts payable and accrued liability balances at the end of each reporting period. On a sample basis, we examined contracts, purchase orders, invoices, and third-party confirmations and compared them to the Company's estimation of services performed by the CROs and CMOs. We also examined certain invoices received and/or payments made after the reporting date and evaluated whether they were associated with services received prior to that date and whether they were included in the Company's estimate of costs incurred at year-end.

/s/ KPMG LLP

We have served as the Company's auditor since 2022.

New York, New York
March 31, 2023

CONSOLIDATED BALANCE SHEETS
($ in thousands except for number of shares and per share data)

	Notes	December 31, 2022	2021
Assets			
Current assets			
Cash and cash equivalents	3	**1,008,470**	964,100
Short-term investments	5	**—**	445,000
Accounts receivable (net of allowance for credit loss of $11 as of December 31, 2022 and 2021, respectively)	6	**39,963**	47,474
Notes receivable		**8,608**	7,335
Inventories, net	7	**31,621**	18,951
Prepayments and other current assets		**35,674**	18,021
Total current assets		**1,124,336**	1,500,881
Restricted cash, non-current	4	**803**	803
Long-term investments (including the fair value measured investment of $6,431 and $15,383 as of December 31, 2022 and 2021, respectively)	8	**6,431**	15,605
Prepayments for equipment		**1,396**	989
Property and equipment, net	9	**57,863**	43,102
Operating lease right-of-use assets	10	**19,512**	14,189
Land use rights, net		**6,892**	7,811
Intangible assets, net		**1,511**	1,848
Long-term deposits		**1,396**	870
Value added tax recoverable		**—**	23,858
Total assets		**1,220,140**	1,609,956

	Notes	December 31, 2022	2021
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	11	**65,974**	126,163
Current operating lease liabilities	10	**7,050**	5,927
Other current liabilities	14	**66,818**	60,811
Total current liabilities		**139,842**	192,901
Deferred income		**21,360**	27,486
Non-current operating lease liabilities	10	**13,343**	9,613
Total liabilities		**174,545**	230,000
Commitments and contingencies (Note 22)			
Shareholders' equity			
Ordinary shares (par value of $0.000006 per share; 5,000,000,000 shares authorized, 962,455,850 and 955,363,980 shares issued as of December 31, 2022 and 2021, respectively; 960,219,570 and 954,981,050 shares issued and outstanding as of December 31, 2022 and 2021, respectively)		**6**	6
Additional paid-in capital		**2,893,120**	2,825,948
Accumulated deficit		**(1,861,360)**	(1,418,074)
Accumulated other comprehensive income (loss)		**25,685**	(23,645)
Treasury stock (at cost, 2,236,280 and 382,930 shares as of December 31, 2022 and 2021, respectively)		**(11,856)**	(4,279)
Total shareholders' equity		**1,045,595**	1,379,956
Total liabilities and shareholders' equity		**1,220,140**	1,609,956

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
($ in thousands except for number of shares and per share data)

	Notes	Year Ended December 31, 2022	2021
Revenues			
Product revenue, net	12	**212,672**	144,105
Collaboration revenue	12	**2,368**	207
Total revenues		**215,040**	144,312
Expenses			
Cost of sales		**(74,018)**	(52,239)
Research and development		**(286,408)**	(573,306)
Selling, general and administrative		**(258,971)**	(218,831)
Loss from operations		**(404,357)**	(700,064)
Interest income		**14,582**	2,190
Interest expenses		**—**	—
Foreign currency (loss) gain		**(56,403)**	4,661
Other income (expenses), net	19	**3,113**	(10,201)
Loss before income tax and share of loss from equity method investment		**(443,065)**	(703,414)
Income tax expense	13	**—**	—
Share of loss from equity method investment		**(221)**	(1,057)
Net loss		**(443,286)**	(704,471)
Loss per share — basic and diluted	15	**(0.46)**	(0.76)
Weighted-average shares used in calculating net loss per ordinary share — basic and diluted		**958,067,140**	929,921,120
Loss per American Depositary Shares ("**ADS**") — basic and diluted		**(4.63)**	(7.58)
Weighted-average ADSs used in calculating net loss per ADS — basic and diluted		**95,806,714**	92,992,112

Note: All the numbers of ordinary shares and per share data in these consolidated financial statements have been retrospectively adjusted as a result of the Share Subdivision and the ADS Ratio Change that became effective on March 30, 2022. The Share Subdivision and ADS Ratio Change did not result in any change to the number of outstanding ADSs of the Company. Refer to Note 2(a) for additional information.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
($ in thousands)

	Year Ended December 31,	
	2022	2021
Net loss	**(443,286)**	(704,471)
Other comprehensive income (loss), net of tax of nil:		
Foreign currency translation adjustments	**49,330**	(9,121)
Comprehensive loss	**(393,956)**	(713,592)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
($ in thousands except for number of shares and per share data)

	Ordinary Shares					Treasury Stock		
	Number of Shares	Amount	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Number of Shares	Amount	Total
Balance at December 31, 2020	878,110,260	5	1,897,467	(713,603)	(14,524)	—	—	1,169,345
Issuance of ordinary shares upon vesting of restricted shares	2,054,500	0	0	—	—	—	—	—
Exercise of shares option	12,353,400	0	7,417	—	—	—	—	7,417
Issuance of ordinary shares upon follow-on public offering, net of issuance cost of $839	57,164,000	1	818,035	—	—	—	—	818,036
Issuance of ordinary shares in connection with collaboration and license arrangement (Note 18)	5,681,820	0	62,250	—	—	—	—	62,250
Issuance cost adjustment for secondary listing	—	—	65	—	—	—	—	65
Receipt of employees' shares to satisfy tax withholding obligations related to share-based compensation	—	—	—	—	—	(382,930)	(4,279)	(4,279)
Share-based compensation	—	—	40,714	—	—	—	—	40,714
Net loss	—	—	—	(704,471)	—	—	—	(704,471)
Foreign currency translation	—	—	—	—	(9,121)	—	—	(9,121)
Balance at December 31, 2021	955,363,980	6	2,825,948	(1,418,074)	(23,645)	(382,930)	(4,279)	1,379,956
Issuance of ordinary shares upon vesting of restricted shares	**1,940,680**	**0**	**0**	**—**	**—**	**—**	**—**	**—**
Exercise of shares option	**5,151,190**	**0**	**5,870**	**—**	**—**	**—**	**—**	**5,870**
Receipt of employees' shares to satisfy tax withholding obligations related to share-based compensation	**—**	**—**	**—**	**—**	**—**	**(1,853,350)**	**(7,577)**	**(7,577)**
Share-based compensation	**—**	**—**	**61,302**	**—**	**—**	**—**	**—**	**61,302**
Net loss	**—**	**—**	**—**	**(443,286)**	**—**	**—**	**—**	**(443,286)**
Foreign currency translation	**—**	**—**	**—**	**—**	**49,330**	**—**	**—**	**49,330**
Balance at December 31, 2022	**962,455,850**	**6**	**2,893,120**	**(1,861,360)**	**25,685**	**(2,236,280)**	**(11,856)**	**1,045,595**

The accompanying notes are an integral part of these consolidated financial statements. "0" in above table means less than $1,000.

CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)

	Year Ended December 31,	
	2022	2021
Cash flows from operating activities		
Net loss	**(443,286)**	(704,471)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for credit loss	**1**	10
Inventory write-down	**477**	1,368
Depreciation and amortization expenses	**8,227**	6,487
Amortization of deferred income	**(2,602)**	(521)
Share-based compensation	**61,302**	40,714
Non-cash research and development expenses	**—**	62,250
Share of loss from equity method investment	**221**	1,057
Loss from fair value changes of equity investment with readily determinable fair value	**8,952**	14,617
Loss (gain) on disposal of property and equipment	**560**	29
Non-cash lease expenses	**8,350**	6,119
Foreign currency remeasurement loss (gain)	**56,403**	(10,679)
Changes in operating assets and liabilities:		
Accounts receivable	**4,330**	(42,319)
Notes receivable	**(1,976)**	(7,335)
Inventories	**(15,382)**	(7,174)
Prepayments and other current assets	**(19,258)**	(7,086)
Long-term deposits	**(527)**	(8)
Value added tax recoverable	**22,781**	(1,717)
Accounts payable	**(53,773)**	63,522
Other current liabilities	**7,392**	30,142
Operating lease liabilities	**(8,455)**	(5,385)
Deferred income	**(1,379)**	11,149
Net cash used in operating activities	**(367,642)**	(549,231)
Cash flows from investing activities		
Purchases of short-term investments	**(260,274)**	(445,000)
Proceeds from maturity of short-term investments	**705,274**	743,902
Purchases of investment in equity investee	**—**	(30,000)
Purchases of property and equipment	**(24,585)**	(18,295)
Proceeds from disposal of property and equipment	**—**	3
Purchases of intangible assets	**(399)**	(653)
Net cash provided by investing activities	**420,016**	249,957

	Year Ended December 31,	
	2022	2021
Cash flows from financing activities		
Proceeds from exercises of stock options	**5,870**	7,417
Proceeds from issuance of ordinary shares upon public offerings	**—**	818,875
Payment of public offering costs	**—**	(1,837)
Employee taxes paid related to settlement of equity awards	**(7,600)**	(4,253)
Net cash (used in) provided by financing activities	**(1,730)**	820,202
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	**(6,274)**	1,116
Net increase in cash, cash equivalents and restricted cash	**44,370**	522,044
Cash, cash equivalents and restricted cash — beginning of the year	**964,903**	442,859
Cash, cash equivalents and restricted cash — end of the year	**1,009,273**	964,903
Supplemental disclosure on non-cash investing and financing activities		
Payables for purchase of property and equipment	**5,269**	2,568
Payables for purchase of intangible assets	**163**	191
Payables for treasury stock	**2**	26
Right-of-use asset acquired under operating leases	**14,801**	2,183
Receivables for disposal of property and equipment	**64**	—
Supplemental disclosure of cash flow information		
Cash and cash equivalents	**1,008,470**	964,100
Restricted cash, non-current	**803**	803
Total cash and cash equivalents and restricted cash	**1,009,273**	964,903

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Principal Activities

Zai Lab Limited was incorporated on March 28, 2013 in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands (as amended). Zai Lab Limited and its subsidiaries are focused on discovering, developing, and commercializing products and product candidates that address medical conditions with significant unmet needs, including in the areas of oncology, autoimmune disorders, infectious diseases, and neuroscience.

The Company's principal operations and geographic markets are in Greater China (mainland China, Hong Kong, Macau, and Taiwan). The Company has a substantial presence in Greater China and the United States.

As of December 31, 2022, Zai Lab Limited had the following 16 subsidiaries:

Name of Company	Place of Incorporation	Particulars of Issued/Paid-in Capital	Percentage of Ownership	Principal Activities and Place of Operation
Zai Lab (Hong Kong) Limited	Hong Kong	Hong Kong dollar ("**HK$**")1	100%	Operating company for business development and R&D activities and commercialization of innovative medicines and device; Hong Kong
ZLIP Holding Limited	Cayman Islands	HK$1	100%	Investment holding
ZL Capital Limited	British Virgin Islands	$1	100%	Investment holding
ZL China Holding Two Limited	Hong Kong	HK$1	100%	Investment holding
Zai Anti Infectives Limited	Cayman Islands	$1	100%	Investment holding
Zai Auto Immune Limited	Cayman Islands	$1	100%	Investment holding
Zai Lab (Shanghai) Co., Ltd.	Mainland China*	$416,500,000	100%	Development and commercialization of innovative medicines and devices; mainland China
Zai Lab (AUST) Pty. Ltd.	Australia	Australian dollar ("**A$**")100	100%	Clinical trial activities; Australia
Zai Lab (Suzhou) Co., Ltd.	Mainland China*	Chinese Renminbi ("**RMB**") 166,500,000	100%	Development and commercialization of innovative medicines; mainland China

Name of Company	Place of Incorporation	Particulars of Issued/Paid-in Capital	Percentage of Ownership	Principal Activities and Place of Operation
Zai Biopharmaceutical (Suzhou) Co., Ltd.	Mainland China*	$15,000,000	100%	Development and commercialization of innovative medicines; mainland China
Zai Lab (US) LLC	United States	$1	100%	Operating company for business development, R&D activities and certain business activities, including legal, compliance and communication functions of the Company; United States
Zai Lab International Trading (Shanghai) Co., Ltd.	Mainland China*	RMB1,000,000	100%	Commercialization of innovative medicines and devices; mainland China
Zai Auto Immune (Hong Kong) Limited	Hong Kong	HK$100	100%	Operating company for business development and R&D activities; Hong Kong
Zai Anti Infectives (Hong Kong) Limited	Hong Kong	HK$100	100%	No substantial business activities
Zai Lab (Taiwan) Limited	Taiwan	Taiwan dollar ("**TWD**") 1,000,000	100%	Commercialization of innovative medicines and devices; Taiwan
Zai Lab Trading (Suzhou) Co., Ltd.	Mainland China*	RMB1,000,000	100%	Commercialization of innovative medicines and devices; mainland China

* Limited liability company established in mainland China.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements have been prepared in accordance with U.S. GAAP. Significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below.

Effective as of March 30, 2022, the Company subdivided each of its issued and unissued ordinary shares into ten ordinary shares (the "**Share Subdivision**"). Following the Share Subdivision, the Company's authorized share capital became $30,000 divided into 5,000,000,000 shares with a par value of $0.000006 per share. The numbers of issued and unissued ordinary shares and per share data as disclosed elsewhere in these consolidated financial statements and notes thereto are presented on a basis after taking into account the effects of the Share Subdivision and have been retrospectively adjusted, where applicable. In connection with the Share Subdivision, the conversion ratio of our ADSs to ordinary shares changed from one ADS to one ordinary share to a new ratio of one ADS to ten ordinary shares (the "**ADS Ratio Change**"). The Share Subdivision and ADS Ratio Change did not result in any change to the number of outstanding ADSs of the Company.

In 2022, the Company began to separately present foreign currency (loss) gain on our consolidated statements of operations. This amount was previously included in other income (expense), net. Additionally, the Company began to provide a breakdown of other income (expense), net in Note 19. The Company also began to separately present the amount of foreign currency remeasurement loss (gain) on our consolidated statements of cash flows. This amount was previously included in changes in other current liabilities. This change did not have any impact on net cash used in operating activities. Corresponding amounts in the prior periods of the consolidated financial statements have been presented to conform to the current period presentation.

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company. All intercompany transactions and balances are eliminated upon consolidation.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgements, and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Areas where management uses subjective judgment include, but are not limited to, accrual of rebates, recognition of research and development expenses to the appropriate financial reporting period based on the progress of the research and development projects, fair value of share-based compensation expenses, recoverability of deferred tax assets, and a lack of marketability discount of the ordinary shares issued in connection with license and collaboration arrangements (Note 18). These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates.

(d) Foreign Currency Translation

The functional currency of Zai Lab Limited, Zai Lab (Hong Kong) Limited, Zai Lab (US) LLC, and Zai Auto Immune (Hong Kong) Limited are the U.S. dollar ("**$**"). The Company's Chinese mainland subsidiaries determined their functional currency to be the RMB. The Company's Australia subsidiary determined its functional currency to be the A$. The Company's Taiwan subsidiary determined its functional currency to be the TWD. The determination of the respective functional currency is based on the criteria of Accounting Standard Codification ("**ASC**") 830, Foreign Currency Matters. The Company uses the U.S. dollar as its reporting currency.

Assets and liabilities are translated from each entity's functional currency to the reporting currency at the exchange rate on the balance sheet date. Equity amounts are translated at historical exchange rates. Revenues, expenses, gains, and losses are translated using the average rate for the period presented. The resulted foreign currency translation adjustments are recorded as a component of other comprehensive loss in the consolidated statements of comprehensive loss, and the accumulated foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in the consolidated statements of changes in shareholders' equity.

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are remeasured into the functional currencies at the prevailing rates of exchange at the balance sheet date.

Non-monetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of operations.

(e) Cash, Cash Equivalents, and Restricted Cash

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of cash on hand, demand deposits, and highly liquid investments with maturity of less than three months and are stated at cost, which approximates fair value.

Restricted Cash

Restricted cash mainly consists of bank deposits held as collateral for issuances of letters of credit.

(f) Short-Term Investments

Short-term investments are time deposits with original maturities between three months and one year. Short-term investments are stated at cost, which approximates fair value. Interest earned is included in interest income.

(g) Accounts Receivable

The Company's accounts receivable arise from product sales and represent amounts due from its customers. In addition, the Company records accounts receivable arising from its collaborative agreements. From January 1, 2020, the Company adopted the ASU 2016-13, Credit Losses, Measurement of Credit Losses on Financial Instruments. Accounts receivable are recorded at the amounts net of allowances for credit losses. The allowance for credit losses reflects the Company's current estimate of credit losses expected to be incurred over the life of the receivables. The Company considers various factors in establishing, monitoring, and adjusting its allowance for credit losses including the aging of receivables and aging trends, customer creditworthiness, and specific exposures related to particular customers. The Company also monitors other risk factors and forward-looking information, such as country-specific risks and economic factors that may affect a debtor's ability to pay in establishing and adjusting its allowance for credit losses. Accounts receivable are written off when deemed uncollectible.

(h) Notes Receivable

Notes receivable is equal to contractual amounts owed from signed, secured promissory notes issued from customers to the Company. The Company considers the notes receivable to be fully collectible. Accordingly, no allowance for credit loss has been established as of December 31, 2022 and 2021.

(i) Inventories

Inventories are stated at the lower of cost or net realizable value, with cost determined on a weighted average basis. The Company periodically reviews the composition of inventory and shelf life of inventory to identify obsolete, slow-moving, or otherwise non-saleable items. The Company will record a write-down to its net realizable value in cost of sales in the period that the decline in value is first identified.

(j) Prepayments for Equipment

The prepayments for equipment purchase are recorded in long-term prepayments considering the prepayments are all related to property and equipment.

(k) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

	Useful life
Office equipment	3 years
Electronic equipment	1.25–3 years
Vehicles	4 years
Laboratory equipment	5 years
Manufacturing equipment	10 years
Leasehold improvements	lesser of useful life or lease term

Construction in progress represents property and equipment under construction and pending installation and is stated at cost less impairment losses, if any.

(l) Leases

The Company leases facilities for its offices, research and development center, and manufacturing facilities in mainland China, Hong Kong, and the United States. On January 1, 2019, the Company adopted ASC 842, Leases using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application and not restating historical periods before the adoption date.

The Company assessed whether an arrangement contains a lease at inception. The Company's leases are all classified as operating leases with fixed lease payments, or minimum payments, as contractually stated in the lease agreements. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

Operating leases are included in operating lease right-of-use assets and operating lease liabilities in the consolidated balance sheets. Operating lease liabilities that become due within one year of the balance sheet date are classified as current operating lease liabilities. Operating lease expense is recognized on a straight-line basis over the lease term.

At the commencement date of a lease, the Company recognizes a lease liability for future fixed lease payments and a right-of-use ("**ROU**") asset representing the right to use the underlying asset during the lease term. The lease liability is initially measured as the present value of the future fixed lease payments that will be made over the lease term. The lease term includes periods for which the Company is reasonably certain that the renewal options will be exercised and the termination options will not be exercised. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as the Company's leases generally do not provide an implicit rate. The incremental borrowing rate is re-evaluated upon a lease modification. The Company considered information available at the adoption date of ASC 842 to determine the incremental borrowing rate for leases in existence as of this date.

The ROU asset is measured at the amount of the lease liability with adjustments, if applicable, for lease prepayments made prior to or at lease commencement, initial direct costs incurred by the Company, and lease incentives. Under ASC 842, land use rights agreements are also considered to be operating lease contracts.

The Company elected to apply each of the practical expedients described in ASC 842 which allow companies (i) not to reassess prior conclusions on whether any expired or existing contracts are or contain a lease, lease classification, and initial direct costs upon adoption of ASC 842, (ii) combine lease and non-lease components for all underlying assets groups, and (iii) not recognize ROU assets or lease liabilities for short term leases. A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

(m) Land Use Rights

All land in mainland China is subject to government or collective ownership. Land use rights can be purchased for a specified period of time. The purchase price of land use rights represents the operating lease prepayments under ASC 842 and is recorded as land use rights on the balance sheet, which is amortized over the remaining lease term.

In 2019, the Company acquired land use rights for a term of 30 years from the local Bureau of Land and Resources in Suzhou for the purpose of constructing and operating the research center and biologics manufacturing facility in Suzhou.

(n) Long-Term Deposits

Long-term deposits represent amounts paid in connection with the Company's long-term lease agreements.

(o) Value Added Tax Recoverable

Value added tax recoverable relates to amounts paid by the Company for purchases. The amounts were expected to be deducted from future value added tax payables arising on the Company's future revenues.

(p) Intangible Assets

Intangible assets mainly consist of externally purchased software which are amortized over three to five years on a straight-line basis. Amortization expenses for both 2022 and 2021 were $0.5 million. Amortization expenses of the Company's intangible assets are expected to be approximately $0.6 million, $0.5 million, $0.3 million, $0.1 million, insignificant amount, and nil for 2023, 2024, 2025, 2026, 2027, and thereafter, respectively.

(q) Impairment of Long-Lived Assets

The Company evaluates long-lived assets, which includes intangible assets, tangible assets, and ROU assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the related asset group to its future undiscounted cash flows. The Company measures any amount of impairment based on the difference between the carrying value and the estimated fair value of the impaired asset group. Long-lived assets are reported at the lower of carrying amount or fair value less cost to sell. Impairment of the Company's long-lived assets was not material for 2022 and 2021.

(r) Fair Value Measurements

The Company applies ASC topic 820, Fair Value Measurements and Disclosures ("**ASC 820**") in measuring fair value. ASC 820 defines fair value, establishes a framework for measuring fair value, and requires disclosures to be provided on fair value measurement.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (i) market approach; (ii) income approach; and (iii) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Equity investments with readily determinable fair value are measured using level 1 inputs and were $6.4 million and $15.4 million as of December 31, 2022 and 2021, respectively. The unrealized gains and losses from fair value changes are recognized in other income (expenses), net in the consolidated statements of operations.

Financial instruments of the Company primarily include cash, cash equivalents and restricted cash, short-term investments, accounts receivable, notes receivable, prepayments, and other current assets, accounts payable, and other current liabilities. As of December 31, 2022 and 2021, the carrying values of cash and cash equivalents, short-term investments, accounts receivable, notes receivable, prepayments, and other current assets, accounts payable, and other current liabilities approximated their fair values due to the short-term maturity of these instruments, and the carrying value of restricted cash approximated its fair value based on the nature of the assessment of the ability to recover these amounts.

(s) Revenue Recognition

In 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers ("**ASC 606**"). Under ASC 606, the Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration expected to be received in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price, including variable consideration, if any; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration to which it is entitled in exchange for the goods or services it transfers to the customer. Once a contract is determined to be within the scope of ASC 606 at contract inception, the Company reviews the contract to determine which performance obligations it must deliver and which of these performance obligations are distinct. The Company recognizes as revenue the amount of the transaction price that is allocated to each performance obligation when that performance obligation is satisfied or as it is satisfied.

The Company's revenue is mainly from product sales. The Company recognizes revenue from product sales when the Company has satisfied the performance obligation by transferring control of the product to the customers. Control of the product generally transfers to the customers when the delivery is made and when title and risk of loss transfers to the consumers. Cost of sales mainly consists of the acquisition cost of products, the manufacturing cost of products, royalty fees, and sales-based milestone payments.

The Company has applied the practical expedients under ASC 606 with regard to assessment of financing component and concluded that there is no significant financing component given that the period between delivery of goods and payment is generally one year or less. The Company's product revenues were mainly generated from the sale of ZEJULA (niraparib), Optune (Tumor Treating Fields), QINLOCK (ripretinib), and NUZYRA (Omadacycline) to customers.

In mainland China, the Company sells the products to distributors, who ultimately sell the products to health care providers. Based on the nature of the arrangements, the performance obligations are satisfied upon the delivery of the products to distributors. Rebates are offered to distributors, consistent with pharmaceutical industry practices. The estimated amount of unpaid or unbilled rebates are recorded as a reduction of revenue, if any. Estimated rebates are determined based on contracted rates and sales volumes and to a lesser extent, distributor inventories. The Company regularly reviews the information related to these estimates and adjusts the amount accordingly.

In Hong Kong, the Company sells the products to customers, which are typically healthcare providers such as oncology centers. The Company utilizes a third party for warehousing services. Based on the nature of the arrangements, the Company has determined that it is a principal in the transaction since the Company is primarily responsible for fulfilling the promise to provide the products to the customers, maintains inventory risk until delivery to the customers, and has latitude in establishing the price. Revenue was recognized at the amount to which the Company expected to be entitled in exchange for the sale of the products, which is the sales price agreed with the customers. Consideration paid to the third party is recognized in operating expenses.

The Company didn't recognize any contract assets and contract liabilities as of December 31, 2022 and 2021.

(t) Collaborative Arrangements

The Company analyzes its collaboration arrangements to assess whether such arrangements involve joint operating activities performed by parties that are both active participants in the activities and exposed to significant risks and rewards dependent on the commercial success of such activities and therefore within the scope of ASC Topic 808, Collaborative Arrangements ("**ASC 808**"). This assessment is performed throughout the life of the arrangement based on changes in the responsibilities of all parties in the arrangement.

For collaboration arrangements within the scope of ASC 808 that contain multiple elements, the Company first determines which elements of the collaboration are deemed to be within the scope of ASC 808 and which elements of the collaboration are more reflective of a vendor-customer relationship and therefore within the scope of ASC 606. For elements of collaboration arrangements that are accounted pursuant to ASC 808, an appropriate recognition method is determined and applied consistently.

(u) Research and Development Expenses

Elements of research and development expenses primarily include (i) payroll and other related costs of personnel engaged in research and development activities; (ii) in-licensed patent rights fees of exclusive development rights of products granted to the Company; (iii) costs related to pre-clinical testing of the Company's technologies under development and clinical trials such as payments to contract research organizations ("CROs") and contract manufacturing organizations ("CMOs"), investigators, and clinical trial sites that conduct our clinical studies; (iv) costs to develop the product candidates, including raw materials and supplies, product testing, depreciation, and facility-related expenses; and (v) other research and development expenses. Research and development expenses are charged to expense as incurred and have no alternative future uses.

The Company has acquired rights to develop and commercialize product candidates. Upfront payments that relate to the acquisition of a new product compound, as well as pre-commercial milestone payments, are immediately expensed as acquired in-process research and development in the period in which they are incurred, provided that the new product compound did not also include processes or activities that would constitute a "business" as defined under U.S. GAAP, and the product candidate has not achieved regulatory approval for marketing and, absent obtaining such approval, has no established alternative future use. Milestone payments made to third parties subsequent to regulatory approval which meet the capitalization criteria would be capitalized as intangible assets and amortized over the estimated remaining useful life of the related product. If the conditions enabling capitalization of development costs as an asset have not yet been met, all development expenditures are recognized in profit or loss when incurred.

(v) Deferred Income

Deferred income mainly consists of deferred income from government grants, the American Depositary Receipt ("**ADR**") Program Agreement with ADR depositary bank (the "**DB**") in July 2017, and the upfront payments received from Huizheng (Shanghai) Pharmaceutical Technology Co., Ltd. ("**Huizheng**", a direct wholly owned subsidiary of Hanhui Pharmaceutical Co., Ltd. ("**Hanhui**")).

Government grants consist of cash subsidies received by the Company's subsidiaries in mainland China from local governments. Grants received as incentives for conducting business in certain local districts with no performance obligation or other restriction as to the use are recognized when cash is received. The Company included $11.5 million and $4.1 million of cash grants in other income for 2022 and 2021, respectively. Grants received with government specified performance obligations are recognized when all the obligations have been fulfilled. If such obligations are not satisfied, the Company may be required to refund the subsidy. The Company recorded $0.9 million and $2.4 million of cash grants in deferred income as of December 31, 2022 and 2021, respectively, which will be recognized when the government specified performance obligation is satisfied.

According to the ADR Program Agreement, the Company has the right to receive reimbursements for using DB's services, subject to the compliance by the Company with the terms of the agreement. The Company performed a detailed assessment of the requirements and recognizes the reimbursements it expects to be entitled to over the five-year contract term as other income. The Company recorded $0.2 million and $0.3 million in other income for 2022 and 2021, respectively. The Company recorded nil and $0.2 million in deferred income as of December 31, 2022 and 2021, respectively.

In March 2020, the Company entered into an exclusive promotion agreement with Huizheng. Under the terms of the agreement, the Company will leverage Hanhui's existing infrastructure to optimize an anticipated future commercial launch of NUZYRA in mainland China given that NUZYRA is a broad-spectrum antibiotic in both hospital and community care facilities. In exchange for the exclusive promotion rights in mainland China, Huizheng has agreed to pay the Company a non-creditable, upfront payment in the amount of RMB230.0 million. The Company received RMB90.0 million in April 2020 and received RMB70.0 million in February 2022. The Company assessed and determined to record the upfront payment as deferred income and amortize it over 10 years from the date when the income recognition criteria were met. In December 2021, the Company obtained regulatory approval for the commercialization of NUZYRA in mainland China which triggered the income recognition criteria, and therefore, the Company started to amortize the deferred income into collaboration revenue on a monthly basis. The Company recorded $2.4 million and $0.2 million in collaboration revenue for 2022 and 2021, respectively. The Company recorded $20.5 million and $24.9 million in deferred income as of December 31, 2022 and 2021, respectively.

(w) Comprehensive Loss

Comprehensive loss is defined as the changes in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. For each of the periods presented, the Company's comprehensive loss includes net loss and foreign currency translation adjustments, which are presented in the consolidated statements of comprehensive loss.

(x) Share-Based Compensation

The Company grants share options and non-vested restricted shares to eligible employees, non-employees, and directors and accounts for these share-based awards in accordance with ASC 718, Compensation-Stock Compensation ("**ASC 718**").

Share-based awards are measured at grant date fair value using the Black-Scholes model. In accordance with ASC 718, the Company has elected to use the straight-line method to recognize compensation expense for share awards with graded vesting based on service conditions, subject to the minimum amount of cumulative compensation expense recognized is not less than the portion of the award vested to date. The Company recognized as expenses (i) immediately at grant date if no vesting conditions are required; or (ii) using a straight-line method over the requisite service period, which is the vesting period.

All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

To the extent the required vesting conditions are not met, resulting in the forfeiture of the share-based awards, previously recognized compensation expense relating to those awards are reversed.

The Company determines the fair value of stock options granted to employees using the Black-Scholes option valuation model.

(y) Income Taxes

Income tax expense includes (i) deferred tax expense, which generally represents the net change in the deferred tax asset or liability balance during the year plus any change in valuation allowances; (ii) current tax expense, which represents the amount of tax currently payable to or receivable from a taxing authority; and (iii) non-current tax expense, which represents the increases and decreases in amounts related to uncertain tax positions from prior periods and not settled with cash or other tax attributes.

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial statement and income tax bases of assets and liabilities, which are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company evaluates its uncertain tax positions using the provisions of ASC 740, Income Taxes, which requires that realization of an uncertain income tax position be recognized in the financial statements. The benefit to be recorded in the financial statements is the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. It is the Company's policy to recognize interest and penalties related to unrecognized tax benefits, if any, as a component of income tax expense. No unrecognized tax benefits and related interest and penalties were recorded in any of the periods presented.

(z) Earnings (Loss) Per Share

Basic earnings (loss) per ordinary share is computed by dividing net income (loss) attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the period.

Diluted earnings (loss) per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. The Company had stock options and non-vested restricted shares, which could potentially dilute basic earnings (loss) per share in the future. To calculate the number of shares for diluted earnings (loss) per share, the effect of the stock options and non-vested restricted shares is computed using the treasury stock method. The computation of diluted earnings (loss) per share does not assume exercise or conversion of securities that would have an anti-dilutive effect.

(aa) Segment Information

In accordance with ASC 280, Segment Reporting, the Company's chief operating decision maker, the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Company as a whole and therefore, the Company has only one operating and reportable segment.

(ab) Concentration of Risks

Concentration of Customers

The following customers accounted for 10% or more of revenue ($ in thousands):

	Year Ended December 31,	
	2022	2021
A	**52,534**	40,634

Concentration of Suppliers

The following suppliers accounted for 10% or more of research and development expenses and inventory purchases ($ in thousands):

	Year Ended December 31,	
	2022	2021
C	*	*
D	*	*
E	*	165,431
F	*	66,650

* Represents less than 10% of research and development expenses and inventory purchases for the period.

Concentration of Credit Risk

Financial instruments that are potentially subject to significant concentration of credit risk consist of cash and cash equivalents, short-term investments, accounts receivable, and notes receivable.

The carrying amounts of cash and cash equivalents and short-term investments represent the maximum amount of loss due to credit risk. As of December 31, 2022 and 2021, all of the Company's cash and cash equivalents and short-term investments were held by major financial institutions located in mainland China and international financial institutions outside of mainland China which management believes are of high credit quality and continually monitors the credit worthiness of these financial institutions.

The following debtors accounted for 10% or more of accounts receivable balances ($ in thousands):

	December 31,	
	2022	2021
A	**9,342**	10,293
B	*	10,979

* Represents less than 10% of accounts receivable as of the applicable date.

Accounts receivable are typically unsecured and are derived from product sales and collaborative arrangements. The Company manages credit risk of accounts receivable through ongoing monitoring of the outstanding balances and limits the amount of credit extended based upon payment history and credit worthiness. Historically, the Company has collected receivables from customers within the credit terms with no significant credit losses incurred.

Certain accounts receivable balances may be settled in the form of notes receivable. As of December 31, 2022, notes receivable represented bank acceptance promissory notes that are non-interest bearing and due within six months. Notes receivable were used to collect the receivables based on an administrative convenience, given these notes are readily convertible to be known amounts of cash. In accordance with the sales agreements, whether to use cash or bank acceptance promissory notes to settle the receivables is at the Company's discretion, and this selection does not impact the agreed contractual purchase prices.

Foreign Currency Risk

RMB is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Company included aggregated amounts of RMB316.8 million and RMB151.7 million, which were denominated in RMB, as of December 31, 2022 and 2021, respectively, representing 5% and 2% of cash and cash equivalents as of December 31, 2022 and 2021, respectively.

(ac) Recent Accounting Pronouncements

Adopted Accounting Standards

In November 2021, the FASB issued ASU2021-10, Government Assistance (Topic 832) — Disclosures by Business Entities about Government Assistance. The amendments in this ASU require disclosures about transactions with a government that have been accounted for by analogizing to a grant or contribution accounting model to increase transparency about (1) the types of transactions, (2) the accounting for the transactions, and (3) the effect of the transactions on an entity's financial statements. The amendments in this ASU are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. The Company adopted this standard as of January 1, 2022. There was no material impact on the Company's financial position or results of operations upon the adoption.

3. Cash and Cash Equivalents

The following table presents the Company's cash and cash equivalents ($ in thousands):

	December 31,	
	2022	2021
Cash at bank and in hand	**1,007,423**	663,472
Cash equivalents (note (i))	**1,047**	300,628
	1,008,470	964,100
Denominated in:		
US$	**957,824**	932,888
RMB (note (ii))	**45,486**	23,791
HK$	**4,378**	6,674
A$	**598**	475
TWD	**184**	272
	1,008,470	964,100

Notes:

(i) Cash equivalents represent short-term and highly liquid investments in a money market fund.

(ii) Certain cash and bank balances denominated in RMB were deposited with banks in mainland China. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

4. Restricted Cash, Non-Current

The Company's restricted cash balance was $0.8 million as of both December 31, 2022 and 2021 and consisted of long-term bank deposits held as collateral for issuance of letters of credit. These deposits will be released when the related letters of credit are settled by the Company.

5. Short-Term Investments

Short-term investments are primarily comprised of time deposits with original maturities between three months and one year. The short-term investments balance was nil as of December 31, 2022. The Company's short-term investments balance was $445.0 million as of December 31, 2021 and consisted entirely of short-term held to maturity debt instruments with high credit ratings, which were determined to have remote risk of expected credit loss. Accordingly, no allowance for credit loss was recorded as of December 31, 2021.

6. Accounts Receivable

The following table presents the Company's accounts receivable as of December 31, 2022 and 2021 ($ in thousands):

	December 31,	
	2022	2021
Accounts receivable	**39,974**	47,485
Impairment	**(11)**	(11)
Total	**39,963**	47,474

The Company's trading terms with its customers are mainly on credit and the credit period generally ranges from 40 to 90 days. The Company seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed. The Company does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

The following table presents an aging analysis of the accounts receivable, based on the invoice date ($ in thousands):

	December 31,	
	2022	2021
Within 3 months	**39,953**	47,474
3 months to 6 months	**4**	—
6 months to 1 year	**6**	—
Total	**39,963**	47,474

7. Inventories, Net

The Company's net inventory balance was $31.6 million and $19.0 million as of December 31, 2022 and 2021, respectively, and mainly consisted of finished goods purchased from Tesaro Inc., now GlaxoSmithKline plc ("**GSK**"), for distribution in Hong Kong, from NovoCure Limited ("**NovoCure**") for distribution in Hong Kong and mainland China, and from Deciphera Pharmaceuticals, LLC ("**Deciphera**") for distribution in Hong Kong, mainland China, and Taiwan, as well as finished goods and certain raw materials for ZEJULA and NUZYRA commercialization in mainland China.

The following table presents the Company's inventories, net ($ in thousands):

	December 31,	
	2022	2021
Finished goods	**12,156**	5,632
Raw materials	**19,029**	13,231
Work in progress	**436**	88
Inventories	**31,621**	18,951

The Company writes down inventory for any excess or obsolete inventories or when the Company believes that the net realizable value of inventories is less than the carrying value. The Company recorded write-downs in cost of sales of $0.5 million and $1.4 million during the years ended December 31, 2022 and 2021, respectively.

8. Long-Term Investments

In July 2021, the Company made an equity investment in MacroGenics Inc. ("**MacroGenics**"), a biopharmaceutical company focused on developing and commercializing innovative monoclonal antibody-based therapeutics for the treatment of cancer, in a private placement with total contributions of $30,000 and obtained 958,467 newly issued common shares of MacroGenics at $31.30 per share. The Company recorded this investment at acquisition cost and subsequently measured it at fair value, with the changes in fair value recognized in other income (expenses), net in the consolidated statements of operations. The equity investments with readily determinable fair value are measured using level 1 inputs and were $6.4 million and $15.4 million as of December 31, 2022 and 2021, respectively. The Company recognized a fair value loss of $9.0 million and $14.6 million for 2022 and 2021, respectively.

9. Property and Equipment, Net

The following table presents the components of the Company's property and equipment, net ($ in thousands):

	December 31,	
	2022	2021
Office equipment	**977**	836
Electronic equipment	**7,416**	5,036
Vehicles	**202**	220
Laboratory equipment	**18,726**	17,069
Manufacturing equipment	**17,055**	14,600
Leasehold improvements	**11,300**	10,432
Construction in progress	**24,251**	11,334
	79,927	59,527
Less: accumulated depreciation	**(22,064)**	(16,425)
Property and equipment, net	**57,863**	43,102

Depreciation expense was $7.7 million and $6.0 million for 2022 and 2021, respectively.

10. Leases

The Company leases facilities for its offices, research and development center, and manufacturing facilities in mainland China, Hong Kong, Taiwan, and the United States. Lease terms vary based on the nature of operations and market dynamics; however, all leased facilities are classified as operating leases with remaining lease terms between one and seven years.

The following table presents operating lease costs ($ in thousands). Total lease expense related to short-term leases was insignificant for those periods presented.

	Year Ended December 31,	
	2022	2021
Operating fixed lease cost	**8,774**	6,263

The following table presents operating cash flows related to leases ($ in thousands):

	Year Ended December 31,	
	2022	2021
Cash paid for amounts included in measurement of lease liabilities	**8,084**	5,840
Non-cash operating lease liabilities arising from obtaining operating right-of-use assets	**14,801**	2,183

The maturities of lease liabilities in accordance with ASC Topic 842, Leases in each of the next five years and thereafter were as follows ($ in thousands):

	Year Ended December 31,
2023	7,561
2024	6,184
2025	4,586
2026	1,734
2027	822
Thereafter	391
Total lease payments	21,278
Less: imputed interest	(885)
Present value of minimum operating lease payments	20,393

Weighted-average remaining lease terms and discount rates are as follows:

	December 31,	
	2022	2021
Weighted-average remaining lease term	**2.6 years**	4.2 years
Weighted-average discount rate	**3.4%**	2.3%

11. Accounts Payable

The following table presents an aging analysis of the accounts payable, based on the invoice date ($ in thousands):

	December 31,	
	2022	2021
Within 3 months	**65,249**	125,709
3 months to 6 months	**132**	416
6 months to 1 year	**577**	22
Over 1 year	**16**	16
Total	**65,974**	126,163

The accounts payable are non-interest-bearing and repayable within the normal operating cycle or on demand.

12. Revenue

Product Revenue, Net

The Company's product revenue is primarily derived from the sales of ZEJULA, Optune, QINLOCK, and NUZYRA in mainland China and Hong Kong. The table below presents the Company's net product sales ($ in thousands):

	Year Ended December 31,	
	2022	2021
Product revenue — gross	**234,009**	190,180
Less: Rebates and sales returns	**(21,337)**	(46,075)
Product revenue — net	**212,672**	144,105

Sales rebates are offered to distributors in mainland China, and the amounts are recorded as a reduction of revenue. Estimated rebates are determined based on contracted rates, sales volumes, and level of distributor inventories.

The following table presents net revenue by product ($ in thousands):

	Year Ended December 31,	
	2022	2021
ZEJULA	**145,194**	93,579
Optune	**47,321**	38,903
QINLOCK	**14,957**	11,620
NUZYRA	**5,200**	3
Total product revenue — net	**212,672**	144,105

Collaboration Revenue

The Company's collaboration revenue was $2.4 million and $0.2 million for 2022 and 2021, respectively. Accounts receivable arising from the Company's collaborative arrangement were nil and $11.0 million as of December 31, 2022 and 2021, respectively. The collaboration revenue was from the Company's exclusive promotion arrangement with Huizheng.

13. Income Tax

Cayman Islands

Zai Lab Limited, ZLIP Holding Limited, Zai Auto Immune Limited, and Zai Anti Infectives Limited are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, Zai Lab Limited, ZLIP Holding Limited, Zai Auto Immune Limited, and Zai Anti Infectives Limited are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

British Virgin Islands Taxation

ZL Capital Limited is incorporated in the British Virgin Islands. Under the current laws of the British Virgin Islands, ZL Capital Limited is not subject to income tax.

Australia

Zai Lab (AUST) Pty. Ltd. is incorporated in Australia and is subject to corporate income tax at a rate of 30%. Zai Lab (AUST) Pty. Ltd. had no taxable income for the periods presented; therefore, no provision for income taxes is required.

United States

Zai Lab (US) LLC is incorporated in the United States and is subject to U.S. federal corporate income tax at a rate of 21%. Zai Lab (US) LLC is also subject to state income tax in Delaware. Zai Lab (US) LLC had no taxable income for the periods presented; therefore, no provision for income taxes is required.

Taiwan

Zai Lab (Taiwan) Limited is incorporated in Taiwan and is subject to corporate income tax at a rate of 20%. Zai Lab (Taiwan) Limited had no taxable income for the periods presented; therefore, no provision for income taxes is required.

Hong Kong

Zai Lab (Hong Kong) Limited, ZL China Holding Two Limited, Zai Auto Immune (Hong Kong) Limited, and Zai Anti Infectives (Hong Kong) Limited are incorporated in Hong Kong. Companies registered in Hong Kong are subject to Hong Kong profits tax on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant Hong Kong tax laws. Under the two-tiered profits tax rates regime in Hong Kong, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the years ended December 31, 2022 and 2021, Zai Lab (Hong Kong) Limited, ZL China Holding Two Limited, Zai Auto Immune (Hong Kong) Limited, and Zai Anti Infectives (Hong Kong) Limited did not make any provisions for Hong Kong profit tax as there were no assessable profits derived from or earned in Hong Kong for any of the periods presented. Under the Hong Kong tax law, Zai Lab (Hong Kong) Limited, ZL China Holding Two Limited, Zai Auto Immune (Hong Kong) Limited, and Zai Anti Infectives (Hong Kong) Limited are exempted from income tax on its foreign-derived income, and there are no withholding taxes in Hong Kong on remittance of dividends.

People's Republic of China

Under the Enterprise Income Tax Law of the People's Republic of China (the "**EIT Law**"), the statutory income tax rate is 25%, and the EIT rate will be reduced to 15% for state-encouraged High and New Technology Enterprises ("**HNTE**"). Zai Lab (Shanghai) Co., Ltd., first obtained a HNTE certificate in 2018 and began to enjoy the preferential tax rate of 15% from 2018 to 2020 and further extended the certificate in 2021 effective for 2021 to 2023. Zai Lab International Trading (Shanghai) Co., Ltd., Zai Lab (Suzhou) Co., Ltd., Zai Biopharmaceutical (Suzhou) Co., Ltd., and Zai Lab Trading (Suzhou) Co., Ltd. are subject to the statutory rate of 25%.

No provision for income taxes has been required to be accrued because the Company and all of its subsidiaries are in cumulative loss positions for the periods presented.

The following table presents loss (income) before income taxes ($ in thousands):

	Year Ended December 31,	
	2022	2021
Cayman Islands	**19,454**	28,401
British Virgin Islands	**2**	2
Mainland China	**290,056**	340,865
Hong Kong	**53,425**	243,400
United States	**79,620**	89,374
Australia	**(260)**	1,758
Taiwan	**989**	671
	443,286	704,471

Reconciliations of the differences between the Chinese statutory income tax rate and the Company's effective income tax rate are as follows:

	Year Ended December 31,	
	2022	2021
Statutory income tax rate	**25%**	25%
Share-based compensation	**(1.40%)**	(0.92%)
Research and development super deduction	**2.51%**	—%
Non-deductible expenses	**(2.31%)**	(5.78%)
Prior year tax filing adjustment	**6.33%**	1.50%
Effect of different tax rate of subsidiary operation in other jurisdictions	**(2.85%)**	(4.60%)
Preferential tax rate	**(6.26%)**	(4.30%)
Changes in valuation allowance	**(21.02%)**	(10.90%)
Effective income tax rate	**—%**	—%

The following table presents the principal components of deferred tax assets and liabilities ($ in thousands):

	Year Ended December 31,	
	2022	2021
Deferred tax assets:		
Depreciation of property and equipment, net	**98**	108
Research and experimental capitalization	**22,476**	—
Share-based compensation	**1,787**	—
Accrued expenses	**1,800**	—
Government grants	**189**	496
Deferred revenue	**3,378**	3,733
Qualified donation	**12,947**	10,246
Net operating loss carry forwards	**241,397**	175,101
Less: valuation allowance	**(284,072)**	(189,684)
Deferred tax assets, net	**—**	—

The Company considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more likely than not realized. This assessment considers, among other matters, the nature, frequency, and severity of recent losses and forecasts of future profitability. These assumptions require significant judgment, and the forecasts of future taxable income are consistent with the plans and estimates the Company is using to manage the underlying businesses. Valuation allowances are established for deferred tax assets based on a more likely than not threshold. The Company's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carry forward periods provided for in the tax law. In 2022 and 2021, the Company determined that the deferred tax assets on temporary differences and net operating loss carry forwards were related to certain subsidiaries, for which the Company is not able to conclude that the future realization of those net operating loss carry forwards and other deferred tax assets are more likely than not. As such, it has fully provided valuation allowance for the deferred tax assets as of December 31, 2022 and 2021. As of December 31, 2022 and 2021, the Company had net operating losses of approximately $1,483.2 million and $1,089.7 million, respectively. As of December 31, 2022, net operating loss carryforwards related to the Company's subsidiaries in mainland China, Hong Kong, Taiwan, the United States, and Australia are $1,225.9 million, $43.9 million, $1.5 million, $208.1 million, and $3.8 million, respectively. Net operating loss carryforwards in mainland China and Taiwan expire through 2032 and those in Hong Kong, the United States, and Australia do not expire.

The following table presents that movement of the valuation allowance ($ in thousands):

	2022	2021
Balance as of January 1,	**(189,684)**	(105,134)
Additions	**(94,388)**	(84,550)
Balance as of December 31,	**(284,072)**	(189,684)

Uncertainties exist with respect to how the current income tax law in mainland China applies to the Company's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of mainland China will be considered residents for Chinese income tax purposes if the place of effective management or control is within mainland China. The implementation rules to the EIT Law provide that non-resident legal entities will be considered Chinese residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, and properties occurs within mainland China. Despite the present uncertainties resulting from the limited Chinese tax guidance on the issue, the Company does not believe that the legal entities organized outside of mainland China within the Company should be treated as residents for EIT Law purposes. If the Chinese tax authorities subsequently determine that the Company and its subsidiaries registered outside of mainland China should be deemed resident enterprises, the Company and its subsidiaries registered outside of mainland China will be subject to Chinese income taxes, at a rate of 25%. The Company is not subject to any other uncertain tax position.

14. Other Current Liabilities

The following table presents the Company's other current liabilities ($ in thousands):

	December 31,	
	2022	2021
Payroll	**31,689**	25,685
Accrued professional service fee	**4,080**	4,319
Payables for purchase of property and equipment	**5,269**	2,568
Accrued rebate to distributors	**8,443**	15,001
Tax payables	**13,283**	8,817
Others[(i)]	**4,054**	4,421
Total	**66,818**	60,811

(i) Others mainly include accrued travel and business-related expenses.

15. Loss Per Share

The following table presents the computation of the basic and diluted net loss per share ($ in thousands, except share and per share data):

	Year Ended December 31,	
	2022	2021
Numerator:		
Net loss attributable to ordinary shareholders	**(443,286)**	(704,471)
Denominator:		
Weighted average number of ordinary shares — basic and diluted	**958,067,140**	929,921,120
Net loss per share — basic and diluted	**(0.46)**	(0.76)

As a result of the Company's net loss for the years ended December 31, 2022 and 2021, share options and non-vested restricted shares outstanding in the respective periods were excluded from the calculation of diluted loss per share as their inclusion would have been anti-dilutive.

	December 31,	
	2022	2021
Share options	**91,181,420**	81,015,590
Non-vested restricted shares	**33,433,890**	9,567,360

16. Related Party Transactions

The Company incurred research and development expenses for product research and development services provided by MEDx (Suzhou) Translational Medicine Co., Ltd. ("**MEDx**"), over which an immediate family member of our Chief Executive Officer and Chairperson of the Board held significant influence. The Company incurred development expenses with MEDx of $0.4 million and $0.7 million during the years ended December 31, 2022 and 2021, respectively.

17. Share-Based Compensation

In March 2015, the Board of the Company approved an Equity Incentive Plan (the "**2015 Plan**"), pursuant to which the Board could grant options to purchase ordinary shares to management including officers, directors, employees, and individual advisors who rendered services to the Company. In August 2017, in connection with the completion of the Company's initial public offering on Nasdaq (the "**IPO**"), the Board approved the 2017 Equity Incentive Plan (the "**2017 Plan**"). All equity-based awards subsequent to the IPO would be granted under the 2017 Plan. The 2017 Plan provided for an automatic annual increase to the number of ordinary shares reserved under the 2017 Plan on each January 1st between January 1, 2018 and January 1, 2027 equal to the lesser of 4% of the number of ordinary shares outstanding as of the close of business on the immediately prior December 31st or such number as approved by the Board on or prior to such date each year.

On June 22, 2022, at the 2022 Annual General Meeting of Shareholders of the Company, the Company's shareholders approved the 2022 Equity Incentive Plan (the "**2022 Plan**"), which was previously approved by the Board on April 20, 2022, conditioned on and subject to (i) the dual primary listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") and (ii) the granting of a waiver on Note 1 to Rule 17.03(9) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company's voluntary conversion of its secondary listing status to primary listing status on the Hong Kong Stock Exchange became effective on June 27, 2022 (the "**Primary Conversion Effective Date**"), and the waiver was granted to the Company in connection with the primary conversion. As such, the 2022 Plan became effective on June 27, 2022, and the aggregate number of shares that may be delivered in satisfaction of awards under the 2022 Plan is 97,908,743 ordinary shares as of June 22, 2022. No new grants will be made under the 2015 Plan or the 2017 Plan as of the effective date of the 2022 Plan.

The options granted have a contractual term of ten years and generally vest ratably over a five-year period, with 20% of the awards vesting on each anniversary of the grant date, subject to continued employment with the Company on the vesting date. The restricted shares granted generally vest ratably over a specified period on the anniversary of the grant date, subject to continued employment/service with the Company on the vesting date. The shares underlying restricted share grants represent shares not yet vested until they have met related consideration or vesting requirements, which are generally continued employment/service to the Company or satisfaction of specified performance conditions. The restricted shares will be released from the restrictions once they vest. Upon termination of the award holders' service with the Company for any reason, any shares that are outstanding and not yet vested will be immediately forfeited unless otherwise set forth in an agreement between the Company and the award holder.

Upon each settlement date of certain share-based awards, shares were withheld to cover the required withholding tax, which was based on the value of a share on the settlement date as determined by the applicable price of the ADSs on the trading day of the applicable settlement date. The remaining shares after the withholding were delivered to the recipient. The amount remitted to the tax authorities for employee tax obligations was reflected as a financing activity on the consolidated statements of cash flows. These shares withheld by the Company as a result of the net settlement were accounted for as treasury stock and considered issued but not outstanding.

Stock Option Activity

The following table presents a summary of option activity and related information during the year ended December 31, 2022:

	Number of options	**Weighted average exercise price ($)**	**Weighted average remaining contractual term (years)**	**Aggregate intrinsic value ($ in thousands)**
Outstanding at December 31, 2021	**81,015,590**	**2.79**	**5.98**	**339,570**
Granted	**22,571,050**	**4.37**		
Exercised	**(5,151,190)**	**1.14**		
Forfeited	**(7,254,030)**	**5.66**		
Outstanding at December 31, 2022	**91,181,420**	**3.05**	**5.89**	**115,969**
Vested and exercisable as of December 31, 2022	**54,682,520**	**1.48**	**4.22**	**112,582**

The aggregate intrinsic value of stock options exercised during 2022 and 2021 was $14.3 million and $170.4 million, respectively.

Stock Option Valuation Assumptions

The following table presents the assumptions used to estimate the fair values of the share options granted:

	2022	2021
Risk-free rate of return	**1.4%–4.0%**	0.9%–1.4%
Expected term (in years)	**6.5**	6, 6.25 or 6.5
Estimated volatility rate	**65%**	65%
Expected dividend rate	**0%**	0%

Non-Vested Restricted Shares Activity

The following table summarized the Company's non-vested restricted share activity in 2022:

	Numbers of non-vested restricted shares	**Weighted average remaining contractual term (years)**	**Aggregate intrinsic value ($ in thousands)**
Non-vested as of December 31, 2021	**9,567,360**	**3.36**	**60,131**
Granted	**30,663,040**		
Vested	**(1,940,680)**		
Forfeited	**(4,855,830)**		
Non-vested as of December 31, 2022	**33,433,890**	**3.55**	**102,642**

Stock-Based Compensation Expenses

Options granted are measured based on grant-date fair value estimated using the Black-Scholes option pricing model. The grant-date fair value of restricted shares is the fair value of the underlying stock on the award's grant date. Compensation expense is recognized over the vesting period of the applicable awards on a straight-line basis. The weighted-average grant-date fair value per share for options granted during 2022 and 2021 were $2.74 and $12.60 per share, respectively. The weighted-average grant-date fair value per share for restricted shares granted in 2022 and 2021 were $3.71 and $10.55 per share, respectively.

The following table presents the stock-based compensation expense which has been reported in the Company's consolidated statements of operations ($ in thousands):

	Year Ended December 31,	
	2022	2021
Selling, general and administrative	**38,118**	23,194
Research and development	**23,184**	17,520
Total	**61,302**	40,714

As of December 31, 2022, there was unrecognized share-based compensation expense related to unvested share options and unvested restricted shares of $101.3 million and $128.6 million, respectively, which the Company expects to recognize over a weighted-average period of 3.34 years and 3.59 years, respectively.

18. License and Collaboration Agreements

The Company may enter into collaboration agreements with third parties to license intellectual property. These agreements may require the Company to make payments related to certain future development, regulatory, and sales-based milestones as well as tiered royalties on future sales of licensed products in the licensed territory. Payments under these agreements generally become due and payable upon the achievement of such milestones or sales. These commitments are not recorded as liabilities on the consolidated balance sheet because the achievement and timing of these milestones are not fixed and determinable. Operating expenses for costs incurred pursuant to these arrangements are reported in their respective expense line item when the Company become obligated to pay, which is generally in the same fiscal year of payment unless otherwise noted. The following is a description of the Company's significant license and collaboration agreements as of December 31, 2022.

License and Collaboration Agreement with GSK (Niraparib)

In September 2016, the Company entered into a collaboration, development, and license agreement with Tesaro, Inc., a company later acquired by GSK, pursuant to which the Company obtained an exclusive sublicense under certain patents and know-how of GSK to develop, manufacture, and commercialize GSK's proprietary PARP inhibitor, niraparib, in mainland China, Hong Kong, and Macau for the diagnosis and prevention of any human diseases or conditions (other than prostate cancer).

To date, the Company has made an upfront payment of $15.0 million and has paid $16.5 million development, regulatory, and sales-based milestones, including a $1.0 million milestone payment accrued in 2020 and made in 2021, a $4.0 million milestone payment made in 2022, and a $3.5 million development milestone and $8.0 million sales-based milestone paid in 2022, which were accrued in 2019 and 2021, respectively.

The Company may be required to pay an additional aggregate amount of up to $28.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentages rates ranging from mid- to high-teens on annual net sales of the licensed products in the licensed territories.

License and Collaboration Agreement with Paratek Bermuda Ltd. ("Paratek") (Omadacycline)

In April 2017, the Company entered into a license and collaboration agreement with Paratek, pursuant to which the Company obtained both an exclusive license under certain patents and know-how of Paratek and an exclusive sub-license under certain intellectual property that Paratek licensed from Tufts University to develop, manufacture, and commercialize products containing omadacycline (ZL-2401) as an active ingredient in Greater China in the field of all human therapeutic and preventative uses other than biodefense.

To date, the Company has made an upfront payment of $7.5 million and has paid $14.0 million in development and regulatory milestone payments, including a $5.0 million development milestone payment upon approval by the U.S. Food and Drug Administration ("**FDA**") of a New Drug Application submission in 2018, a $3.0 million development milestone payment upon submission of the first regulatory approval application for a licensed product in the People's Republic of China paid in 2020, and a $6.0 million development milestone upon regulatory approval of omadacycline for the treatment of adults with ABSSSI and CABP in the People's Republic of China accrued in December 2021 and paid in 2022.

The Company may be required to pay an additional aggregate amount of up to $40.5 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentages rates ranging from low- to mid-teens on annual net sales of licensed products in the licensed territory.

License and Collaboration Agreement with Amgen (Bemarituzumab)

In December 2017, the Company entered into a license and collaboration agreement with Five Prime Therapeutics, Inc. (later acquired by Amgen), pursuant to which it obtained an exclusive license under certain patents and know-how of Five Prime to develop and commercialize products containing Five Prime's proprietary afucosylated FGFR2b antibody known as bemarituzumab (FPA144) as an active ingredient in the treatment or prevention of any disease or condition in humans in Greater China.

To date, the Company has made an upfront payment of $5.0 million and a milestone payment of $2.0 million. The Company may be required to pay an additional aggregate amount of up to $37.0 million in development and regulatory milestones as well as certain royalties at tiered percentage rates ranging from high-teens to low twenties on annual net sales of the licensed product in the licensed territory.

Under the terms of the agreement, provided that the Company enrolls and treats a specified number of patients in the bemarituzumab FPA144-004 study in mainland China, the Company is eligible to receive a low single-digit percentage quarterly royalty, on a licensed product-by-licensed product basis on net sales of all licensed product outside of the licensed territory until the tenth (10th) anniversary of the first commercial sale of each such licensed product outside the licensed territory.

License and Collaboration Agreement with Entasis Therapeutics Holdings Inc. ("Entasis") (SUL-DUR)

In April 2018, the Company entered into a license and collaboration agreement with Entasis, pursuant to which it obtained an exclusive license under certain patents and know-how of Entasis to develop and commercialize products containing Entasis' proprietary compounds known as durlobactam (ETX2514) and Sulbactam (ETX2514SUL) as an active ingredient with the possibility of developing and commercializing a combination of such compounds with Imipenem in all human diagnostic, prophylactic, and therapeutic uses in Greater China, Korea, Vietnam, Thailand, Cambodia, Laos, Malaysia, Indonesia, the Philippines, Singapore, Australia, New Zealand, and Japan. The Company's rights to develop and commercialize the licensed products are limited to the lead product (Sulbactam) until such lead product receives initial FDA approval in the United States.

To date, the Company has made an upfront payment of $5.0 million and two development milestone payments totaling $7.0 million. The Company may be required to pay an additional aggregate amount of up to $91.6 million in development and commercial milestones as well as certain royalties at tiered percentage rates ranging from high single digits to low-teens on annual net sales of the licensed products in the licensed territory. The Company is also responsible for a portion of the costs of the global pivotal Phase III clinical trial of SUL-DUR outside of the territory.

The Company has the right to terminate this agreement at any time by providing written notice of termination to Entasis.

License and Collaboration Agreement with Crescendo Biologics Ltd. ("Crescendo") (ZL-1102)

In May 2018, the Company entered into an agreement with Crescendo, pursuant to which the Company obtained an exclusive, worldwide license to develop, commercialize, and manufacture ZL-1102, a topical, innovative antibody VH domain therapeutic for all indications. Pursuant to the terms of the agreement, the Company will be responsible for conducting all regulatory filings, clinical studies, and commercialization activities, with both companies participating in a Joint Development Committee.

In October 2020, the Company and Crescendo entered into a supplemental license agreement, under which Crescendo granted to the Company a non-exclusive, worldwide license to use the Crescendo VH HLEs in connection with the development, commercialization, manufacture, and other exploitation of VH HLE licensed products.

To date, the Company has made two upfront fee payments totaling $4.5 million, including a $2.5 million payment in 2020, and three milestone payments totaling $6.0 million, including a $2.0 million payment in 2020 and a $4.0 million payment in 2021. The Company may be required to pay an additional aggregate amount of up to $298.1 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates on annual global sales.

The Company has the right to terminate this agreement at any time by providing written notice of termination to Crescendo.

License and Collaboration Agreement with NovoCure (Tumor Treating Fields)

In September 2018, the Company entered into a license and collaboration agreement with NovoCure, pursuant to which it obtained an exclusive license under certain patents and know-how of NovoCure to develop and commercialize Tumor Treating Fields products in all human therapeutic and preventative uses in the field of oncology in Greater China.

To date, the Company has made an upfront payment of $15.0 million in 2018 and two milestone payments totaling $10.0 million made in 2020. The Company may be required to pay an additional aggregate amount of up to $68.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from low- to mid-teens on annual net sales of the licensed products in the licensed territory. The Company will purchase licensed products exclusively from NovoCure at NovoCure's fully burdened manufacturing cost.

The Company has the right to terminate this agreement at any time by providing written notice of termination to NovoCure.

License and Collaboration Agreements with MacroGenics (including Margetuximab and Tebotelimab)

In November 2018, the Company entered into a collaboration agreement with MacroGenics, pursuant to which it obtained an exclusive license under certain patents and know-how of MacroGenics to develop and commercialize margetuximab, tebotelimab (MGD-013), and an undisclosed multi-specific TRIDENT molecule in pre-clinical development, each as an active ingredient in all human fields of use, except to the extent limited by any applicable third party agreement of MacroGenics in Greater China.

To date, the Company has made an upfront payment of $25.0 million and three milestone payments totaling $9.0 million, including $4.0 million paid in 2020 and $5.0 million accrued in 2021 but paid in 2022. The Company may be required to pay an additional aggregate amount of up to $84.0 million in development and regulatory milestones as well as certain royalties at tiered percentage rates ranging from low-teens to twenties on annual net sales of the licensed products in the licensed territory. The tebotelimab program was terminated in 2022, but the Company continue to collaborate with respect to the other licensed products.

The Company has the right to terminate this agreement at any time by providing written notice of termination to MacroGenics.

In June 2021, the Company entered into another collaboration and license agreement with MacroGenics, pursuant to which the Company and MacroGenics made four collaboration programs involving up to four immuno-oncology molecules. The first collaboration program covers a lead research molecule that incorporates MacroGenics' DART platform and binds CD3 and an undisclosed target that is expressed in multiple solid tumors. The second collaboration program will cover a target to be designated by MacroGenics. For both molecules, the Company received commercial rights in Greater China, Japan, and Korea, and MacroGenics received commercial rights in all other territories. For the lead molecule, the Company receives an option upon reaching a predefined clinical milestone to convert the regional arrangement into a global 50/50 profit share. The Company also obtained exclusive, global licenses from MacroGenics to develop, manufacture, and commercialize two additional molecules. For these four programs, each Company will contribute intellectual property to generate either CD3- or CD47-based bispecific antibodies.

To date, the Company has made an upfront payment of $25.0 million in 2021. Further, on June 15, 2021, as partial consideration for the rights granted to us under this agreement, the Company entered into a stock purchase agreement with MacroGenics, pursuant to which the Company purchased from MacroGenics in a private placement an aggregate of 958,467 newly issued shares of common stock, par value $0.01 per share, of MacroGenics, with a per share purchase price of $31.30, for aggregate gross proceeds of approximately $30.0 million. The Company may be required to pay an additional aggregate amount of up to $1,386.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates on annual net sales of specified products, subject to reduction under specified circumstances. The Company also has an option to convert the royalty arrangement for the lead research molecule to a global 50/50 profit and loss sharing arrangement by making a payment of approximately $85.0 million.

The Company has the right to terminate this agreement at any time by providing written notice of termination to MacroGenics.

License and Collaboration Agreement with Deciphera (Ripretinib)

In June 2019, the Company entered into a license agreement with Deciphera, pursuant to which it obtained an exclusive license under certain patents and know-how of Deciphera to develop and commercialize products containing ripretinib in the field of the prevention, prophylaxis, treatment, cure, or amelioration of any disease or medical condition in humans in Greater China.

To date, the Company has made an upfront payment of $20.0 million and three milestone payments totaling $12.0 million, including $2.0 million paid in 2020 and $5.0 million paid in 2021. The Company may be required to pay an additional aggregate amount of up to $173.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from low- to high-teens on annual net sales of the licensed products in the licensed territory.

The Company has the right to terminate this agreement at any time by providing written notice of termination to Deciphera.

License and Collaboration Agreement with Incyte Corporation ("Incyte") (Retifanlimab)

In July 2019, the Company entered into a collaboration and license agreement with Incyte, pursuant to which it obtained an exclusive license under certain patents and know-how of Incyte to develop and commercialize products containing retifanlimab (INCMGA012) as an active ingredient in the treatment, palliation, diagnosis, or prevention of diseases in the fields of hematology or oncology in humans in Greater China. The Company terminated this license agreement, in accordance with its terms, effective January 11, 2023.

Collaboration Agreement with Regeneron Pharmaceuticals, Inc ("Regeneron") (Odronextamab)

In April 2020, the Company entered into a collaboration agreement with Regeneron Ireland Designated Activity Company, an affiliate of Regeneron, pursuant to which it obtained oncology development and exclusive commercialization rights for products containing odronextamab as the sole active ingredient in Greater China. The Company also obtained a right of first negotiation for additional indications outside the field of cancer.

To date, the Company has made an upfront payment of $30.0 million in 2020. The Company may be required to pay an additional aggregate amount of up to $160.0 million in regulatory and sales-based milestones. Additionally, the Company will make payments to Regeneron based on annual net sales, such that Regeneron shares in a significant portion of any potential profits. The Company is also responsible for contributing to the global development costs of odronextamab for certain trials and will purchase odronextamab exclusively from Regeneron.

The Company has the right to terminate this agreement at any time by providing written notice of termination to Regeneron.

License Agreement with BMS (Formerly Turning Point Therapeutics Inc ("Turning Point")) (Repotrectinib and TPX-0022)

In July 2020, the Company entered into an exclusive license agreement with Turning Point (a company later acquired by BMS) pursuant to which the Company received an exclusive license to develop and commercialize products containing repotrectinib as an active ingredient in all human therapeutic indications in Greater China.

To date, the Company has made an upfront payment of $25.0 million in 2020 and three milestone payments in 2021 totaling $5.0 million. The Company may be required to pay an additional aggregate amount of up to $146.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from mid- to high-teens on annual net sales of the licensed product in the licensed territory.

The Company has the right to terminate this agreement at any time by providing written notice of termination.

In January 2021, the Company entered into an additional license agreement with Turning Point, which expanded their collaboration. Under the terms of this agreement, the Company obtained an exclusive license under certain patents and know-how to develop and commercialize products containing Turning Point's product candidate, TPX-0022, as an active ingredient in all human therapeutic indications in Greater China.

To date, the Company has made an upfront payment of $25.0 million. The Company may be required to pay an additional aggregate amount of up to $336.0 million in development, regulatory, and sales-based milestone payments as well as certain royalties at tiered percentage rates ranging from mid-teen to low twenties on annual net sales of the licensed products in the licensed territory. In addition, Turning Point will have the right of first negotiation to develop and commercialize an oncology product candidate discovered by the Company.

License Agreement with Taiho Pharmaceutical Co., Ltd. ("Taiho") (formerly Cullinan Pearl Corp. ("Cullinan Pearl")) (Zipalertinib, formerly CLN-081)

In December 2020, the Company entered into a license agreement with Cullinan Pearl, a subsidiary of Cullinan Oncology, Inc., pursuant to which it obtained an exclusive license under certain patents and know-how of Cullinan Pearl to develop, manufacture, and commercialize products containing CLN-081 as an active ingredient in all uses in humans and animals in Greater China.

To date, the Company has made an upfront payment of $20.0 million, which was accrued in 2020 and paid in 2021. The Company may be required to pay an additional aggregate amount of up to $211.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from high-single-digit to low-teens on annual net sales of the licensed product in the licensed territory. Cullinan Pearl received worldwide rights for CLN-081, excluding Japan, from Taiho in 2018. In June 2022, Taiho acquired Cullinan Pearl and obtained exclusive global rights to CLN-081 outside of the United States. In December 2022, the Company agreed with Taiho on the assignment of our license agreement with Cullinan Pearl to Taiho.

The Company has the right to terminate this agreement at any time by providing written notice of termination to Taiho.

License Agreement with Takeda Pharmaceutical Company Limited ("Takeda") (Simurosertib)

In December 2020, the Company entered into an exclusive license agreement with Takeda. Under the terms of the license agreement, Takeda exclusively licensed to the Company the right to research, develop, and commercialize the licensed products in the licensed field during the term. To date, the Company has made an upfront payment of $6.0 million to Takeda, which was accrued in 2020 and paid in 2021. This program was terminated in 2022.

Collaboration and License Agreement with argenx BV ("argenx") (Efgartigimod)

In January 2021, the Company entered into a collaboration and license agreement with argenx pursuant to which the Company received an exclusive license under certain patents and know-how of argenx to develop and commercialize products containing efgartigimod as an active ingredient in all human and animal uses for any preventative or therapeutic indications in Greater China.

Pursuant to the collaboration and license agreement, the Company and argenx entered into a share issuance agreement. The Company issued as an upfront payment to argenx 5,681,820 ordinary shares of the Company. In determining the fair value of the ordinary shares at closing, the Company considered the closing price of the ordinary shares on the closing date and included a lack of marketability discount because the shares were subject to certain restrictions. The fair value of the shares on the closing date was determined to be $62.3 million in the aggregate. In addition, the Company made a $75.0 million cash payment as a guarantee for non-creditable, non-refundable development cost-sharing payment in 2021.

The Company has made a milestone payment of $25.0 million in 2022 which was accrued in the fourth quarter of 2021 related to the first regulatory approval for the licensed product by the FDA in December 2021.

The Company may be required to pay certain royalties at tiered percentages rates ranging from mid-teen to low-twenties on annual net sales of the licensed products in the licensed territory.

Collaboration and License Agreement with Mirati Therapeutics, Inc. ("Mirati") (Adagrasib)

In May 2021, the Company entered into a collaboration and license agreement with Mirati pursuant to which the Company obtained the right to research, develop, manufacture, and exclusively commercialize adagrasib in all indications in Greater China, with Mirati retaining exclusive rights for the development, manufacturing, and commercialization of adagrasib outside of Greater China and certain co-commercialization, manufacture, and development rights in Greater China.

To date, the Company has made an upfront payment of $65.0 million to Mirati in 2021 and two development milestone payments totaling $10.0 million in 2022. The Company may be required to pay an additional aggregate amount of up to $263.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from high-teens to low-twenties on annual net sales of the licensed product in the licensed territory.

Collaboration and License Agreement with Blueprint Medicines Corporation ("Blueprint") (BLU-945 and BLU-701)

In November 2021, the Company entered into a collaboration and license agreement with Blueprint, pursuant to which the Company obtained rights to develop and exclusive commercialize BLU-701 and BLU-945 and BLU-701 and certain other forms thereof, including backup compounds, for the treatment of patients with EGFR-driven non-small cell lung cancer in Greater China.

To date, the Company has made an upfront payment of $25.0 million in 2021. The Company may be required to pay an additional aggregate amount of up to $590.0 million in clinical, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from the low- to mid-teens on annual net sales of the licensed products in the licensed territory. Blueprint deprioritized BLU-701 in 2022, but the Company continue to collaborate with respect to BLU-945.

The Company has the right to terminate this agreement after the second anniversary of the effective date by providing written notice of termination to Blueprint.

License Agreement with Karuna Therapeutics, Inc. ("Karuna") (KarXT)

In November 2021, the Company entered into a license agreement with Karuna, pursuant to which the Company obtained an exclusive license to develop, manufacture, and commercialize KarXT (xanomeline-trospium) in Greater China.

To date, the Company has made an upfront payment of $35.0 million in 2021 and two development milestone payments totaling $10.0 million in 2022. The Company may be required to pay an additional aggregate amount of up to $142.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from low- to high-teens on annual net sales of the licensed products in Greater China.

Collaboration and License Agreement with Seagen Inc. ("Seagen") (TIVDAK)

In September 2022, the Company entered into a collaboration and license agreement with Seagen, pursuant to which the Company and Seagen agreed to collaboratively develop and commercialize TIVDAK (tisotumab vedotin). Under the agreement, the Company obtained an exclusive license to develop and commercialize TIVDAK in Greater China.

To date, the Company has made an upfront payment of $30.0 million in 2022. The Company may be required to pay an additional aggregate amount of up to $263.0 million in development, regulatory, and sales-based milestone payments as well as certain royalties at tiered percentage rates ranging from mid-teens to low-twenties on annual net sales of the licensed products in Greater China.

The agreement will remain in effect, unless earlier terminated, until the expiration of the last-to-expire royalty term for the last licensed product. The agreement contains customary provisions for termination by either party, including in the event of a material breach by the other party that remains uncured, by the Company for convenience, for certain bankruptcy events, and by Seagen upon a challenge of the licensed patent rights.

Aggregate Potential Payments under License and Collaboration Agreements

As noted above, the Company has entered into various license and collaboration agreements with third party licensors to develop and commercialize product candidates. Based on the terms of these agreements, the Company is contingently obligated to make additional material payments upon the achievement of certain contractually defined milestones. Based on management's evaluation of the progress of each project noted above, as of December 31, 2022, the Company may be required to pay licensors an aggregate additional amount of up to approximately $5,300.4 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates on annual net sales. The development milestones, such as regulatory approval for the product candidates, may occur before the Company has commercialized the product or received any revenue from sales of such product candidate. These milestone payments are subject to uncertainties and contingencies and may not occur.

19. Other Income (Expenses), Net

The following table presents other income (expenses), net ($ in thousands):

	Year Ended December 31,	
	2022	2021
Government grants	**11,471**	4,113
Loss on equity investments with readily determinable fair value	**(8,952)**	(14,617)
Others miscellaneous gain	**594**	303
Total	**3,113**	(10,201)

20. Restricted Net Assets

The Company's ability to pay dividends may depend on the Company receiving distributions of funds from its Chinese subsidiaries. Relevant Chinese laws and regulations permit payments of dividends by the Company's Chinese subsidiaries only out of its retained earnings, if any, as determined in accordance with Chinese accounting standards and regulations. The results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's Chinese subsidiaries.

In accordance with the Company Law of the People's Republic of China, a domestic enterprise is required to provide statutory reserves of at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise's Chinese statutory accounts. A domestic enterprise may provide discretionary surplus reserve, at the discretion of the Board, from the profits determined in accordance with the enterprise's Chinese statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. The Company's Chinese subsidiaries were established as domestic enterprises and therefore are subject to the above-mentioned restrictions on distributable profits.

No appropriation to statutory reserves was made during the years ended December 31, 2022 and 2021 because the Chinese subsidiaries had substantial losses during such periods.

As a result of these Chinese laws and regulations, subject to the limits discussed above that require annual appropriations of 10% of after-tax profit to be set aside, prior to payment of dividends, as a general reserve fund, the Company's Chinese subsidiaries are restricted in their ability to transfer out a portion of their net assets.

Foreign exchange and other regulation in mainland China may further restrict the Company's Chinese subsidiaries from transferring out funds in the form of dividends, loans, and advances. As of December 31, 2022 and 2021, amounts restricted are the paid-in capital of the Company's Chinese subsidiaries, which amounted to $456.0 million and $406.0 million, respectively.

21. Employee Defined Contribution Plans

Full time employees of the Company in mainland China participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund, and other welfare benefits are provided to employees. Chinese labor regulations require that the Company's subsidiaries in China mainland make contributions to the government for these benefits primarily based on certain percentages of the employees' salaries subject to certain caps and other government requirements. The total amounts for such employee benefits, which were expensed as incurred, were $23.6 million and $17.6 million for 2022 and 2021, respectively.

The Company's employees who are U.S. taxpayers and who meet certain age and service requirements are eligible to participate in a broad-based, defined contribution retirement plan which is qualified under Section 401 of the Internal Revenue Code. In 2022, the Company makes a matching contribution equal to 50% of the first 5% of the employee's elective contributions under the plan, up to 2.5% of an employee's eligible compensation. Contributions made by the Company vest 100% upon contribution. The total amounts for such employee benefits, which were expensed as incurred, was $0.5 million in 2022 and was not material in 2021.

The Company also provides required Mandatory Provident Fund contribution for its full-time employees located in Hong Kong and provides social benefits contribution for its full-time employees located in Taiwan. The total amounts for these contributions, which were expensed as incurred, was $0.2 million in 2022 and was not material in 2021.

22. Commitments and Contingencies

(a) Purchase Commitments

The Company's commitments related to purchase of property and equipment contracted but not yet reflected in the consolidated financial statements were $9.0 million as of December 31, 2022 and were expected to be incurred within one year.

(b) Legal Proceedings

The Company is not currently a party to any material legal proceedings. Each quarter, the Company evaluates whether there have been any developments in legal proceedings that would require an accrual. In accordance with the accounting guidance for contingencies, the Company will accrue for losses that are both probable and reasonably estimable.

(c) Indemnifications

In the normal course of business, the Company enters into agreements that indemnify others for certain liabilities that may arise in connection with a transaction or certain events and activities. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, the Company may be required to reimburse the loss. These indemnifications are generally subject to various restrictions and limitations. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations.

23. Director and Chief Executive Remuneration

Director and chief executive remuneration for the years ended December 31, 2022 and 2021 are disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HK Listing Rules**"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance, and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and are as follows ($ in thousands):

	Year ended December 31,	
	2022	2021 (unaudited)
Fees	**473**	355
Other emoluments:		
Salaries, allowances and benefits in kind	**861**	1,262
Performance related and discretionary bonuses	**832**	1,108
Share-based compensation expenses*	**12,438**	10,601
Pension scheme contributions	**6**	11
	14,137	12,982
	14,610	13,337

* The fair value of share-based compensation, which has been recognized in the consolidated statements of operations over the vesting period, was determined on the date of grant in accordance with ASC 718, *Compensation-Stock Compensation* under U.S. GAAP. Refer to Note 17 for additional information.

None of the Company's directors waived any emoluments during 2022 and 2021.

During 2022 and 2021, no emoluments were paid or payable by the Company to any of the Company's directors as an inducement to join or upon joining the Company or as compensation for loss of office.

The remuneration of each director for the years ended December 31, 2022 and 2021 were as follows ($ in thousands):

Year ended December 31, 2022

	Fees	Salaries, allowances and benefits in kind	Performance related and discretionary bonuses	Share-based compensation expense	Pension scheme contributions	Total remuneration
Executive director and chief executive						
Dr. Samantha Du[Note (i)]	**—**	**861**	**832**	**9,438**	**6**	**11,137**
Independent non-executive directors						
Dr. Kai-Xian Chen	**56**	**—**	**—**	**500**	**—**	**556**
Dr. John Diekman	**88**	**—**	**—**	**500**	**—**	**588**
Ms. Nisa Leung	**—**	**—**	**—**	**—**	**—**	**—**
Mr. William Lis	**61**	**—**	**—**	**500**	**—**	**561**
Mr. Leon O. Moulder, Jr.	**68**	**—**	**—**	**500**	**—**	**568**
Mr. Peter Wirth	**75**	**—**	**—**	**500**	**—**	**575**
Mr. Scott W. Morrison	**64**	**—**	**—**	**250**	**—**	**314**
Mr. Richard Gaynor, M.D.	**61**	**—**	**—**	**250**	**—**	**311**

Year ended December 31, 2021 (Unaudited)

	Fees	Salaries, allowances and benefits in kind	Performance related and discretionary bonuses	Share-based compensation expense	Pension scheme contributions	Total remuneration
Executive director and chief executive						
Dr. Samantha Du *Note (i)*	—	800	864	6,384	4	8,052
Executive director						
Mr. Tao Fu *Note (i)(ii)*	—	462	244	1,515	7	2,228
Independent non-executive directors						
Dr. Kai-Xian Chen	51	—	—	521	—	572
Dr. John Diekman	75	—	—	521	—	596
Ms. Nisa Leung	—	—	—	—	—	—
Mr. William Lis	66	—	—	521	—	587
Mr. Leon O. Moulder, Jr.	68	—	—	535	—	603
Mr. Peter Wirth	75	—	—	521	—	596
Mr. Scott W. Morrison	13	—	—	54	—	67
Mr. Richard Gaynor, M.D.	7	—	—	29	—	36

Notes:

(i) The Company compensates its independent non-executive directors pursuant to its non-employee director compensation policy. Executive officers that also serve as directors, including Dr. Samantha Du and Mr. Tao Fu, are not compensated separately for their services to the Company as directors.

(ii) Effective on May 7, 2021, the Board appointed Mr. Tao Fu as Chief Strategy Officer of the Company. Concurrent with this appointment, Mr. Tao Fu resigned from his positions as President and Chief Operating Officer of the Company and from his position as an executive director of the Company, effective immediately.

24. Five Highest Paid Individuals

The five highest paid individuals for the years ended December 31, 2022 and 2021 included the following number of directors and chief executive (headcount):

	Year ended December 31,	
	2022	2021 (unaudited)
Director and chief executive[#]	**1**	1
Neither director nor chief executive	**4**	4
	5	5

Details of the remuneration of the Director and chief executive are set out in Note 23 above.

The aggregate of the emoluments in respect of the remaining individuals who are neither a director nor chief executive of the Company are as follows ($ in thousands):

	Year ended December 31,	
	2022	2021 (unaudited)
Salaries, allowances and benefits in kind	**2,238**	2,092
Performance related and discretionary bonuses	**1,084**	1,187
Share-based compensation expenses[*]	**12,176**	8,671
Pension scheme contributions	**34**	37
Inducement to join or upon joining the Company	**—**	300
	15,532	12,287

* The fair value of share-based compensation, which has been recognized in the consolidated statements of operations over the vesting period, was determined on the date of grant in accordance with ASC 718, *Compensation-Stock Compensation* under U.S. GAAP. Refer to Note 17 for additional information.

The number of non-director and non-chief executive highest paid individuals whose remuneration fell within the following bands is as follows (headcount):

	2022	2021 (unaudited)
HK$22,000,001 to HK$22,500,000	**—**	1
HK$23,500,001 to HK$24,000,000	**—**	2
HK$25,500,001 to HK$26,000,000	**—**	1
HK$26,500,001 to HK$27,000,000	**1**	—
HK$29,000,001 to HK$29,500,000	**1**	—
HK$29,500,001 to HK$30,000,000	**1**	—
HK$36,000,001 to HK$36,500,000	**1**	—
	4	4

Share-based compensation amount is included in the above disclosures. The fair value of share-based compensation, which has been recognized in the consolidated statements of operations over the vesting period, was determined on the date of grant in accordance with ASC 718, *Compensation-Stock Compensation* under U.S. GAAP. Refer to Note 17 for additional information.

During 2022 and 2021, no emoluments were paid or payable by the Company to any of the five highest paid individuals of the Company as compensation for loss of office.

25. Auditors' Remuneration

The fees paid or payable by the Company in relation to audit services for the year ended December 31, 2022 and 2021 (unaudited) were $4.7 million and $1.2 million, respectively. The auditor's remuneration paid or payable by the Company in relation to non-audit services for the year ended December 31, 2022 and 2021 (unaudited) were nil and $0.1 million, respectively.

26. Dividends

The Board did not recommend any final dividend for the years ended December 31, 2022 and 2021.

FINANCIAL STATEMENTS SCHEDULE I — FINANCIAL INFORMATION OF PARENT COMPANY

PARENT COMPANY CONSOLIDATED BALANCE SHEET

($ in thousands except for number of shares and per share data)

	December 31, 2022	2021
Assets		
Current assets:		
Cash and cash equivalents	**944,649**	591,842
Short-term investments	**—**	445,000
Prepayments and other current assets	**10,203**	2,364
Total current assets	**954,852**	1,039,206
Investment in subsidiaries	**93,363**	341,980
Total assets	**1,048,215**	1,381,186
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Other current liabilities	**2,620**	996
Total current liabilities	**2,620**	996
Deferred income	**—**	234
Total liabilities	**2,620**	1,230
Shareholders' equity		
Ordinary shares (par value of $0.000006 per share; 5,000,000,000 shares authorized, 962,455,850 and 955,363,980 shares issued as of December 31, 2022 and 2021, respectively; 960,219,570 and 954,981,050 shares issued and outstanding as of December 31, 2022 and 2021, respectively)	**6**	6
Additional paid-in capital	**2,893,120**	2,825,948
Accumulated deficit	**(1,861,360)**	(1,418,074)
Accumulated other comprehensive income (loss)	**25,685**	(23,645)
Treasury stock	**(11,856)**	(4,279)
Total shareholders' equity	**1,045,595**	1,379,956
Total liabilities and shareholders' equity	**1,048,215**	1,381,186

PARENT COMPANY STATEMENTS OF SHAREHOLDERS' EQUITY
($ in thousands except for number of shares and per share data)

	Ordinary Shares					Treasury Stock		
	Number of Shares	Amount	Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Number of Shares	Amount	Total
Balance at December 31, 2020	878,110,260	5	1,897,467	(713,603)	(14,524)	—	—	1,169,345
Issuance of ordinary shares upon vesting of restricted shares	2,054,500	0	0	—	—	—	—	—
Exercise of shares option	12,353,400	0	7,417	—	—	—	—	7,417
Issuance of ordinary shares upon follow-on public offering, net of issuance cost of $839	57,164,000	1	818,035	—	—	—	—	818,036
Issuance of ordinary shares in connection with collaboration and license arrangement (Note 18)	5,681,820	0	62,250	—	—	—	—	62,250
Issuance cost adjustment for secondary listing	—	—	65	—	—	—	—	65
Receipt of employees' shares to satisfy tax withholding obligations related to share-based compensation	—	—	—	—	—	(382,930)	(4,279)	(4,279)
Share-based compensation	—	—	40,714	—	—	—	—	40,714
Net loss	—	—	—	(704,471)	—	—	—	(704,471)
Foreign currency translation	—	—	—	—	(9,121)	—	—	(9,121)
Balance at December 31, 2021	955,363,980	6	2,825,948	(1,418,074)	(23,645)	(382,930)	(4,279)	1,379,956
Issuance of ordinary shares upon vesting of restricted shares	**1,940,680**	**0**	**0**	**—**	**—**	**—**	**—**	**—**
Exercise of shares option	**5,151,190**	**0**	**5,870**	**—**	**—**	**—**	**—**	**5,870**
Receipt of employees' shares to satisfy tax withholding obligations related to share-based compensation	**—**	**—**	**—**	**—**	**—**	**(1,853,350)**	**(7,577)**	**(7,577)**
Share-based compensation	**—**	**—**	**61,302**	**—**	**—**	**—**	**—**	**61,302**
Net loss	**—**	**—**	**—**	**(443,286)**	**—**	**—**	**—**	**(443,286)**
Foreign currency translation	**—**	**—**	**—**	**—**	**49,330**	**—**	**—**	**49,330**
Balance at December 31, 2022	**962,455,850**	**6**	**2,893,120**	**(1,861,360)**	**25,685**	**(2,236,280)**	**(11,856)**	**1,045,595**

The accompanying notes are an integral part of these consolidated financial statements. "0" in above table means less than $1,000.

Reconciliation Between U.S. GAAP and International Financial Reporting Standards

The consolidated financial statements of the Company are prepared in accordance with U.S. GAAP, which differ in certain respects from the International Financial Reporting Standards ("**IFRS**"). The following tables present the effect of material differences on the financial information of the Company prepared under U.S. GAAP and IFRS, as of and for the year ended December 31, 2022 and 2021 (the "**Reconciliation Statements**").

The following information is extracted from the consolidated financial statements as of and for the year ended December 31, 2022, which were prepared for the purpose of these Reconciliation Statements in accordance with the accounting policies that are consistent with the recognition and measurement requirements of IFRS, and audited by KPMG, Certified Public Accountants.

Reconciliation of consolidated statements of operations ($ in thousands)

	Year ended December 31, 2022		
Consolidated statements of operations	**Amounts as reported under U.S. GAAP**	**IFRS adjustments Share-based compensation (note (i))**	**Amounts as reported under IFRS**
Expenses			
Research and development	**(286,408)**	**(4,726)**	**(291,134)**
Selling, general and administrative	**(258,971)**	**(10,644)**	**(269,615)**
Net loss	**(443,286)**	**(15,370)**	**(458,656)**
Net loss attributable to ordinary shareholders	**(443,286)**	**(15,370)**	**(458,656)**

Consolidated statements of operations	Year ended December 31, 2021 Amounts as reported under U.S. GAAP	IFRS adjustments Share-based compensation (note (i))	Amounts as reported under IFRS
Expenses			
Research and development	(573,306)	(6,436)	(579,742)
Selling, general and administrative	(218,831)	(7,014)	(225,845)
Net loss	(704,471)	(13,450)	(717,921)
Net loss attributable to ordinary shareholders	(704,471)	(13,450)	(717,921)

Reconciliation of consolidated balance sheets ($ in thousands)

Consolidated balance sheets	**As of December 31, 2022** **Amounts as reported under U.S. GAAP**	**IFRS adjustments Share-based compensation (note (i))**	**Amounts as reported under IFRS**
Additional paid-in capital	**2,893,120**	**46,070**	**2,939,190**
Accumulated deficit	**(1,861,360)**	**(46,070)**	**(1,907,430)**
Total shareholders' equity	**1,045,595**	**—**	**1,045,595**

Consolidated balance sheets	As of December 31, 2021 Amounts as reported under U.S. GAAP	IFRS adjustments Share-based compensation (note (i))	Amounts as reported under IFRS
Additional paid-in capital	2,825,948	30,700	2,856,648
Accumulated deficit	(1,418,074)	(30,700)	(1,448,774)
Total shareholders' equity	1,379,956	—	1,379,956

Notes:

(i) Share-Based Compensation

Under U.S. GAAP, the Company has elected to use the straight-line method to recognize compensation expense for instruments granted to employees with graded vesting based on service conditions, subject to the minimum amount of cumulative compensation expense recognized is not less than the portion of the award vested to date.

Under IFRS, the graded vesting method must be applied to recognize compensation expense.

In addition, under U.S. GAAP, the Company has elected to recognize the effect of forfeitures as they occur, and previously recognized compensation cost is reversed in the period that the award is forfeited.

Under IFRS, the number of instruments that are expected to vest are estimated by the Company initially. Subsequently, these estimates are trued up for differences between the number of instruments expected to vest and the actual number of instruments vested.

A difference of $15.4 million arose between the amount of share-based compensation (included in research and development expenses, and selling, general and administrative expenses) recognized under U.S. GAAP and IFRS for the year ended December 31, 2022 (the difference was $13.5 million for the year ended December 31, 2021).

The accumulated difference on share-based compensation recognized in accumulated deficit and additional paid in capital under U.S. GAAP and IFRS was $46.1 million as of December 31, 2022 (the accumulated difference was $30.7 million as of December 31, 2021).

(ii) Leases

Under U.S. GAAP, as a lessee, the Company recognized a lease liability based on the present value of the total remaining lease payments, and a corresponding right of use asset. The amortization of the right-of-use assets and the interest expenses related to the lease liabilities are recorded together as a single total lease expense on a straight-line basis on the consolidated statements of operations.

Under IFRS, the amortization of the right-of-use assets is recognized on a straight-line basis while the interest expense related to the lease liabilities is recognized on the basis that the lease liabilities are measured at amortized cost. Compared to the U.S. GAAP, this changes the allocation and the total amount of expenses recognized for each period of the lease terms, and results in a higher total charge to profit or loss in the early years and a decreasing expense during the latter years of the lease terms. The amortization on the right-of-use assets and the interest expense on the lease liabilities are separately recorded on the consolidated statements of operations.

Based on the Company's assessment, the differences on leases recognized under U.S. GAAP and IFRS did not have material impact on the consolidated financial statements as of and for the years ended December 31, 2022 and 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are a patient-focused, innovative, commercial-stage, global biopharmaceutical company with a substantial presence in both Greater China and the United States. We are focused on discovering, developing, and commercializing products that address medical conditions with significant unmet needs in the areas of oncology, autoimmune disorders, infectious diseases, and neuroscience. We intend to leverage our competencies and resources to positively impact human health in Greater China and worldwide. We currently have four commercial products that have received marketing approval in one or more territories in Greater China and thirteen programs in late-stage product development.

Since our inception, we have incurred net losses and negative cash flows from our operations. Substantially all of our losses have resulted from funding our research and development programs and general and administrative costs associated with our operations. Developing high-quality product candidates requires significant investment in our research and development activities over a prolonged period of time, and a core part of our strategy is to continue making sustained investments in this area. Our ability to generate profits and positive cash flow from operations over the next several years depends upon our ability to successfully market our four commercial products — ZEJULA, Optune, QINLOCK, and NUZYRA — and to successfully expand the indications for these products and develop and commercialize our other product candidates. We expect to continue to incur substantial expenses related to our research and development activities. In particular, our licensing and collaboration agreements require us to make upfront payments upon our entry into such agreements and milestone payments upon the achievement of certain development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates based on annual net sales of the licensed products in the licensed territories. We recorded $53.4 million of research and development expense related to upfront license fees and development milestones in 2022. In addition, we expect to incur substantial costs related to the commercialization of our product candidates, in particular during the early launch phase.

As we pursue our strategy of growth and development, we anticipate that our financial results will fluctuate from quarter to quarter and year to year depending in part on the balance between the success of our commercial products and the level of our research and development expenses. We cannot predict whether or when products in our pipeline, including new indications for our current commercial products, will receive regulatory approval. Further, if we receive such regulatory approval, we cannot predict whether or when we may be able to successfully commercialize such product or whether or when such product may become profitable.

To date, we have also:

- partnered with established biopharmaceutical and leading healthcare companies in the United States, the European Union, and Japan such as GSK, NovoCure, Deciphera, Paratek, argenx, Entasis, MacroGenics, Seagen, Mirati, Amgen, BMS, Karuna, Regeneron, Taiho, and Blueprint through in-licensing product candidates to position ourselves as a partner of choice for the development and commercialization of novel therapeutics in Greater China;

- achieved reimbursement for ZEJULA, QINLOCK, and NUZYRA in mainland China through their inclusion on the National Reimbursement Drug List ("**NRDL**");

- built a strong leadership team of seasoned industry veterans with extensive pharmaceutical research and development and commercialization experience in both global and Chinese biopharmaceutical companies as well as strong research and development and commercialization teams to execute our corporate strategic priorities;

- advanced our in-house discovery pipeline and capabilities targeting global markets; and

- continued to develop the necessary facilities and infrastructure in the United States and China to support our global leadership and corporate functions as well as our regulatory, clinical, manufacturing, and commercial activities.

In 2022, despite challenges from the COVID-19 pandemic in China, sales for our four commercial products continued to increase. We expect our sales for these products to further increase in 2023, in part because of ZEJULA's continued gain of share of hospital sales for ovarian cancer in China, the new listings for QINLOCK and NUZYRA on the NRDL, and the increased number of supplemental insurance plan listings for Optune. We also continued to make progress across our product pipeline. For example, we had several positive data readouts during the year, including for adagrasib in non-small cell lung cancer, efgartigimod in primary immune thrombocytopenia and generalized myasthenia gravis, and KarXT in schizophrenia. We contributed to successful registrational studies, including the LUNAR study for Tumor Treating Fields and the TRIDENT-1 study for repotrectinib. And, we increased our pipeline assets through our business development activities with our strategic collaboration with Seagen for the license of TIVDAK, which further deepened our women's cancer franchise.

We also continued to strengthen our business in 2022 through corporate developments, including key additions to our global leadership team, enhancements to our corporate governance practices, and our voluntary conversion to primary listing status on the Hong Kong Stock Exchange and the subsequent inclusion of our ordinary shares in the Shanghai and Shenzhen Stock Connect Programs. For example, with respect to our global leadership team, we appointed Rafael G. Amado, M.D. as President, Head of Global Oncology Research and Development in December 2022. Dr. Amado joined us from Allogene Therapeutics and brings deep expertise in the field of oncology and significant global biopharmaceutical R&D leadership. And, as we have previously disclosed, we made other key additions to our global leadership team in 2022, including in August when Josh Smiley became Chief Operating Officer and in November when Dr. Peter Huang became Chief Scientific Officer. With respect to corporate governance, in April, we appointed KPMG LLP, a U.S.-based auditor, to be our independent registered public accounting firm and auditor, and in July, the Board established a lead independent director role, appointing Dr. John Diekman to serve in this important position. Finally, our transition to primary listing status on the Hong Kong Stock Exchange and participation in the Stock Connect programs should help us increase access to our business by investors in Greater China.

We further discuss below key factors affecting our results of operations, key components and primary drivers of changes in our results of operations in 2022, and our liquidity and capital resources.

Recent Developments

On March 20, 2023, our partner Karuna reported positive topline results from its Phase 3 EMERGENT-3 trial evaluating the efficacy, safety, and tolerability of its lead investigational therapy, KarXT (xanomeline-trospium) in adults with schizophrenia. The trial met its primary endpoint, with KarXT demonstrating a statistically significant and clinically meaningful 8.4-point reduction in Positive and Negative Syndrome Scale (PANSS) total score compared to placebo (-20.6 KarXT vs. -12.2 placebo; $p<0.0001$) at Week 5 (Cohen's d effect size of 0.60). Consistent with prior trials, KarXT demonstrated an early and sustained statistically significant reduction of symptoms from Week 2 ($p<0.05$) through the end of the trial as assessed by PANSS total score.

Factors Affecting Our Results of Operations

Research and Development Expenses

We believe our ability to successfully develop product candidates will be the primary factor affecting our long-term competitiveness, as well as our future growth and development. Developing high-quality product candidates requires a significant investment of resources over a prolonged period of time, and a core part of our strategy is to continue making sustained investments in research and development. As a result of this commitment, our pipeline of product candidates has been advancing and expanding, with thirteen late-stage clinical product candidates being investigated as of December 31, 2022.

We have financed our activities primarily through private placements, our initial public offering in September 2017 and multiple follow-on offerings on Nasdaq and our secondary listing and initial public offering on the Hong Kong Stock Exchange in September 2020. Through December 31, 2022, we have raised approximately $164.6 million from private equity financing and approximately $2,462.7 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us from our initial public offerings and follow-on offerings. Our operations have consumed substantial amounts of cash since inception. The net cash used in our operating activities was $367.6 million and $549.2 million in 2022 and 2021, respectively. We expect our expenditures to increase significantly in connection with our ongoing activities, particularly as we advance the clinical development of our thirteen late-stage clinical product candidates, research and develop our clinical and pre-clinical-stage product candidates, and initiate additional clinical trials of, and seek regulatory approval for, these and other future product candidates. We review such expenditures for prioritization and efficiency purposes. These expenditures include:

- expenses incurred for CROs, CMOs, investigators, and clinical trial sites that conduct our clinical studies;
- employee compensation related expenses, including salaries, benefits, and equity compensation expenses;
- expenses for licensors;
- the cost of acquiring, developing, and manufacturing clinical study materials;

- facilities and other expenses, which include office leases and other overhead expenses;
- costs associated with pre-clinical activities and regulatory operations;
- expenses associated with the construction and maintenance of our manufacturing facilities; and

For more information on our research and development expenses, see Key Components of Results of Operations — Research and Development Expenses.

Selling, General, and Administrative Expenses

Our selling, general, and administrative expenses consist primarily of personnel compensation and related costs, including share-based compensation for commercial and administrative personnel. Other selling, general, and administrative expenses include product distribution and promotion costs, professional service fees for legal, intellectual property, consulting, auditing, and tax services as well as other direct and allocated expenses for rent and maintenance of facilities, insurance, and other supplies used in selling, general, and administrative activities. We anticipate that our selling, general, and administrative expenses will increase in future periods to support increases in our commercial and research and development activities and as we continue to discover, develop, commercialize, and manufacture our products and assets. These increases will likely include expanded infrastructure as well as increased headcount and share-based compensation, product distribution, promotion, and insurance costs. We also anticipate incurring additional legal, compliance, accounting, and investor and public relations expenses associated with being a public company.

Our Ability to Commercialize Our Product Candidates

As of December 31, 2022, thirteen of our product candidates are in late-stage clinical development and various others are in clinical and pre-clinical development in Greater China and the United States. Our ability to generate revenue from our product candidates is dependent on our receipt of regulatory approvals for and successful commercialization of such products, which may not occur. Certain of our product candidates may require additional pre-clinical and/or clinical development, regulatory approvals in multiple jurisdictions, manufacturing supply, substantial investment, and significant marketing efforts before we generate any revenue from product sales.

Our License Arrangements

Our results of operations have been, and we expect them to continue to be, affected by our licensing, collaboration, and development agreements. We are required to make upfront payments upon our entry into such agreements and milestone payments upon the achievement of certain development, regulatory, and sales-based milestones for the relevant products under these agreements as well as certain royalties at tiered percentage rates based on annual net sales of the licensed products in the licensed territories. We recorded research and development expense related to upfront license fees and development milestones of $53.4 million and $384.1 million in 2022 and 2021, respectively.

The COVID-19 Pandemic

Our results of operations have been, and we expect them to continue to be, adversely affected by the COVID-19 pandemic, including government actions and quarantine measures taken in response or increased infection rates after restrictions were lifted or eased, particularly in mainland China where our operations and product markets are primarily located. For example, the pandemic has adversely affected patient access to our products, such as through reduced hospital access during periods of lockdown or high infection rates, fewer newly diagnosed oncology patients, and delayed or interrupted treatments. The pandemic has also adversely affected our manufacturing and supply chain and our research and development, sales, marketing, and clinical trial activities. The operations of our suppliers, CROs, CMOs, and other contractors and third parties on which we rely also have been, and may continue to be, adversely affected. Although our net product revenues increased in 2022, as compared to the prior year, these revenue increases were negatively affected by the effects of the pandemic, and we expect additional adverse revenue impacts in the coming year and possibly in future years depending on the nature, severity, and duration of future effects from the pandemic.

FUTURE AND OUTLOOK

Our mission is to be a leading global biopharmaceutical company focused on discovering, developing, and commercializing innovative therapies that improve the lives of patients in China and worldwide.

In 2023, our key corporate strategic goals for driving innovation in China and beyond include:

- **Accelerating Medicines to Patients:** We seek to advance our product pipeline by continuing to invest in research and development, including internal discovery activities;

- **Expanding Our Pipeline:** We seek the continued growth of our differentiated product pipeline through regional and global collaborations and corporate development activities; and

- **Continuing Our Commercial Excellence and Execution:** We seek to continue delivering strong financial performance, including by increasing access to our existing commercial products and driving further increases in our efficiency and productivity as we continue preparations to launch eight additional products in Greater China in the next 2–3 years. Through our efforts, we seek to achieve overall corporate profitability by the end of 2025.

We also seek to build and maintain the trust of our stakeholders. In 2022, we established our ESG Trust for Life strategy, which includes three commitments: improve human health, create better outcomes, and act right now with ethical business practices and strong corporate governance. As part of our corporate strategy, and the actions taken in support of our corporate goals, we will continue to develop and integrate our Trust for Life strategy into our business and operations.

FINANCIAL REVIEW

Key Components of Results of Operations

The following table presents our results of operations ($ in thousands):

	Year Ended December 31		Change	
	2022	2021	**$**	**%**
Revenues				
Product revenue, net	**212,672**	144,105	68,567	48%
Collaboration revenue	**2,368**	207	2,161	1044%
Total revenues	**215,040**	144,312	70,728	49%
Expenses				
Cost of sales	**(74,018)**	(52,239)	(21,779)	42%
Research and development	**(286,408)**	(573,306)	286,898	(50)%
Selling, general and administrative	**(258,971)**	(218,831)	(40,140)	18%
Loss from operations	**(404,357)**	(700,064)	295,707	(42)%
Interest income	**14,582**	2,190	12,392	566%
Foreign currency (loss) gain	**(56,403)**	4,661	(61,064)	(1310)%
Other income (expenses), net	**3,113**	(10,201)	13,314	(131)%
Loss before income tax and share of loss from equity method investment	**(443,065)**	(703,414)	260,349	(37)%
Income tax expense	**—**	—	—	—%
Share of loss from equity method investment	**(221)**	(1,057)	836	(79)%
Net loss	**(443,286)**	(704,471)	261,185	(37)%
Net loss attributable to ordinary shareholders	**(443,286)**	(704,471)	261,185	(37)%

Revenues

Product Revenue, Net

The following table presents the components of the Company's product revenue, net ($ in thousands):

	Year Ended December 31		Change	
	2022	2021	**$**	**%**
Product revenue — gross	**234,009**	190,180	43,829	23%
Less: Rebates and sales returns	**(21,337)**	(46,075)	24,738	(54)%
Product revenue — net	**212,672**	144,105	68,567	48%

Our product revenue is primarily derived from the sales of ZEJULA, Optune, QINLOCK, and NUZYRA in mainland China and Hong Kong, net of sales returns and rebates to distributors in mainland China with respect to the sales of these products. Our net product revenue increased by $68.6 million in 2022, primarily driven by increased sales volumes and decreased rebates. Although our sales volumes increased, these volumes were negatively affected by the effects of the COVID-19 pandemic, including government restrictions or lockdown measures in mainland China, which negatively affected patient access to our products. The decrease in rebates was primarily due to fewer products being sold at prices prior to reduction that required such rebates. We had price reductions for QINLOCK and NUZYRA in June 2022, compared to price reductions for ZEJULA in December 2020 and December 2021.

The following table presents net revenue by product ($ in thousands):

	Year Ended December 31		Change	
	2022	2021	**$**	**%**
ZEJULA	**145,194**	93,579	51,615	55%
Optune	**47,321**	38,903	8,418	22%
QINLOCK	**14,957**	11,620	3,337	29%
NUZYRA	**5,200**	3	5,197	173233%
Total	**212,672**	144,105	68,567	48%

Collaboration Revenue

Collaboration revenue was $2.4 million in 2022 compared to $0.2 million in 2021 due to increased revenue from our exclusive promotion agreement with Huizheng.

Cost of Sales

Cost of sales increased by $21.8 million to $74.0 million in 2022 primarily due to increasing sales volumes, higher product costs, and higher royalties.

Research and Development Expenses

The following table presents the components of our research and development expenses ($ in thousands):

	Year Ended December 31		Change	
	2022	2021	**$**	**%**
Personnel compensation and related costs	**105,561**	77,227	28,334	37%
Licensing fees	**53,441**	384,104	(330,663)	(86)%
CROs/CMOs/Investigators expenses	**100,544**	82,571	17,973	22%
Other costs	**26,862**	29,404	(2,542)	(9)%
Total	**286,408**	573,306	(286,898)	(50)%

Research and development expenses decreased by $286.9 million in 2022 primarily due to:

- a decrease of $330.7 million in licensing fees in connection with decreased upfront and milestone payments for our license and collaboration agreements; partially offset by
- an increase of $28.3 million in personnel compensation and related costs primarily due to headcount growth and grants of share options and restricted shares and the continued vesting of option and restricted share awards; and
- an increase of $18.0 million in CROs/CMOs/Investigators expenses related to ongoing and newly initiated clinical trials.

The following table presents our research and development expenses by program ($ in thousands):

	Year Ended December 31		Change	
	2022	2021	**$**	**%**
Clinical programs	**155,792**	433,021	(277,229)	(64)%
Pre-clinical programs	**6,644**	47,768	(41,124)	(86)%
Unallocated research and development expenses	**123,972**	92,517	31,455	34%
Total	**286,408**	573,306	(286,898)	(50)%

Research and development expenses attributable to clinical programs decreased by $277.2 million and research and development expenses attributable to pre-clinical programs decreased by $41.1 million in 2022, both decreases driven by decreased license fees.

Although we manage our external research and development expenses by program, we do not allocate our internal research and development expenses by program because our employees and internal resources may be engaged in projects for multiple programs at any given time.

Selling, General and Administrative Expenses

The following table presents our selling, general and administrative expenses by program ($ in thousands):

	Year Ended December 31		Change	
	2022	2021	**$**	**%**
Personnel compensation and related costs	**162,045**	124,675	37,370	30%
Professional service fees	**35,414**	22,901	12,513	55%
Other costs	**61,512**	71,255	(9,743)	(14)%
Total	**258,971**	218,831	40,140	18%

Selling, general and administrative expenses increased by $40.1 million in 2022, primarily due to:

- an increase of $37.4 million in personnel compensation and related costs which was primarily driven by headcount growth, particularly in commercial and administrative personnel, and grants of share options and restricted shares and the continued vesting of option and restricted share awards; and

- an increase of $12.5 million in professional service fee mainly attributable to our increased legal, compliance, accounting, and investor and public relations expenses associated with being a public company and in connection with sales of ZEJULA, Optune, QINLOCK, and NUZYRA in mainland China and Hong Kong after our commercial launch of these four commercialized products; partially offset by

- a decrease of $9.7 million in other costs mainly related to selling, rental, and administrative expenses for commercial operations in mainland China, Hong Kong, and Taiwan.

Interest Income

Interest income increased by $12.4 million to $14.6 million in 2022, due to increased interest rates.

Foreign Currency (Loss) Gain

Foreign currency loss was $56.4 million in 2022 primarily driven by remeasurement loss due to USD appreciating against RMB in 2022, compared to foreign currency gain of $4.7 million in 2021 driven by remeasurement gain due to USD depreciating against RMB in 2021.

Other Income (Expenses), Net

Other income, net was $3.1 million in 2022, compared to other expense, net of $10.2 million in 2021. The shift from other expense, net to other income, net is primarily due to an increase of $7.4 million in government grant income and a decrease of $5.7 million in loss on equity investments with readily determinable fair value.

Share of Loss from Equity Method Investment

Share of loss from equity method investment decreased by $0.8 million to $0.2 million in 2022, due to increased losses from our investment in JING Medicine Technology (Shanghai) Ltd., an entity that provides services for drug discovery and development, consultation, and transfer of pharmaceutical technology.

Income Tax Expense

There was no change in our income tax expense, which was zero in both 2022 and 2021. For more information on taxes to which we are subject in the Cayman Islands, PRC, and Hong Kong, see Note 13 to the consolidated financial statements.

Discussion of Certain Key Balance Sheet Items

Cash, cash equivalents, and restricted cash

As of December 31, 2022, the Company's cash, cash equivalents, and restricted cash amounted to $1,009.3 million and primarily comprised of (1) $958.6 million denominated in US dollars; (2) $45.5 million denominated in RMB; and (3) $5.2 million in aggregate denominated in Hong Kong dollar, Australian dollar, and Taiwan dollar.

Accounts receivable

Accounts receivable decreased by $7.5 million to $40.0 million as of December 31, 2022, primarily due to the collection of receivable from Huizheng of $11.0 million for the upfront payment and partially offset by the increased receivables from our customers arising from product sales in 2022.

Inventories, net

The inventories increased by $12.7 million to $31.6 million as of December 31, 2022, mainly because we built up the inventory balance in anticipation of increasing sales in mainland China.

Property and equipment, net

The property and equipment increased by $14.8 million to $57.9 million as of December 31, 2022, primarily attribute to our on-going buildout of the Suzhou manufacturing facility, expansion of business development and research and development activities.

Accounts payable

Accounts payable includes amounts due to third parties and totalled $66.0 million and $126.2 million as of December 31, 2022 and 2021, respectively.

The following table presents an aging analysis of accounts payable, which is based on invoice date ($ in thousands):

	December 31,	
	2022	2021
Within 3 months	**65,249**	125,709
3 months to 6 months	**132**	416
6 months to 1 year	**577**	22
Over 1 year	**16**	16
Total	**65,974**	126,163

Other current liabilities

The following table presents the Company's other current liabilities ($ in thousands):

	December 31,	
	2022	2021
Payroll	**31,689**	25,685
Accrued professional service fee	**4,080**	4,319
Payables for purchase of property and equipment	**5,269**	2,568
Accrued rebate to distributors	**8,443**	15,001
Tax payables	**13,283**	8,817
Others (i)	**4,054**	4,421
Total	**66,818**	60,811

Other current liabilities increased by $6.0 million to $66.8 million as of December 31, 2022 primarily due to increased accrued bonus and the withholding tax, partially offset by the settlement of rebate to distributors.

Liquidity and Capital Resources

The following table represents our cash and cash equivalents, short-term investments, and restricted cash ($ in thousands):

	December 31, 2022	2021
Cash and cash equivalents	**1,008,470**	964,100
Short-term investments	**—**	445,000
Restricted cash, non-current	**803**	803
Total	**1,009,273**	1,409,903

To date, we have financed our activities primarily through private placements, our September 2017 initial public offering and various follow-on offerings on Nasdaq, and our September 2020 secondary listing and initial public offering on the Hong Kong Stock Exchange. Through December 31, 2022, we have raised approximately $164.6 million in private equity financing and approximately $2,462.7 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us in our initial public offering and subsequent follow-on offerings on Nasdaq and our initial public offering on the Hong Kong Stock Exchange. Our operations have consumed substantial amounts of cash since inception. The net cash used in our operating activities was $367.6 million and $549.2 million in 2022 and 2021, respectively. We have commitments for capital expenditures of $9.0 million as of December 31, 2022, mainly for the purpose of plant construction and installation. We currently do not have any known events that are reasonably likely to cause a material change in the relationship between our costs and revenues.

As of December 31, 2022, we had cash and cash equivalents, restricted cash, and short-term investments of $1,009.3 million. Based on our current operating plan, we expect that our cash, cash equivalents, restricted cash, and short-term investments as of March 31, 2023, will enable us to fund our operating expenses and capital expenditure requirements for at least the next 12 months. However, in order to bring to fruition our research and development objectives, we may ultimately need additional funding sources, and there can be no assurances that such funding will be made available to us on acceptable terms or at all.

The following table presents information regarding our cash flows ($ in thousands):

	Year Ended December 31,		Change
	2022	2021	**$**
Net cash used in operating activities	**(367,642)**	(549,231)	181,589
Net cash provided by investing activities	**420,016**	249,957	170,059
Net cash (used in) provided by financing activities	**(1,730)**	820,202	(821,932)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	**(6,274)**	1,116	(7,390)
Net increase in cash, cash equivalents and restricted cash	**44,370**	522,044	(477,674)

Net Cash Used in Operating Activities

Net cash used in operating activities decreased by $181.6 million in 2022, primarily due to a decrease of $261.2 million in net loss and an increase of $20.4 million in adjustments to reconcile net loss to net cash used in operating activities, partially offset by a decrease of $100.0 million in net changes in operating assets and liabilities.

Net Cash Provided by Investing Activities

Net cash provided by investing activities increased by $170.1 million in 2022, primarily due to a decrease of $184.7 million in purchases of short-term investments and a decrease of $30.0 million in payments for investment in equity investee, partially offset by a decrease of $38.6 million in proceeds from maturity of short-term investments and an increase of $6.3 million in purchases of property and equipment.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities was $1.7 million in 2022, compared to net cash provided by financing activities of $820.2 million in 2021. The shift from cash provided by to cash used in financing activities was primarily because we had proceeds of $818.9 million from our issuance of ordinary shares upon public offerings in 2021 while there were no such transactions in 2022.

Effect of Exchange Rates on Cash

We have substantial operations in mainland China, which generate a significant amount of RMB-denominated cash from product sales and require a significant amount of RMB-denominated cash to pay our obligations. Since the reporting currency of the Company is the U.S. dollar, periods of volatility in exchange rates may have a significant impact on our consolidated cash balances.

Operating Capital Requirements

We expect our expenses to increase significantly in connection with our ongoing activities, particularly as we continue to commercialize our approved products, continue our research and development efforts related to our clinical and pre-clinical-stage product candidates, and initiate additional clinical trials of, and seek and/or expand regulatory approval for, ZEJULA, Optune, QINLOCK, NUZYRA, and our other products and product candidates. In addition, if we obtain regulatory approval for any additional product candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales, and distribution. In particular, if more of our product candidates are approved, additional costs may be substantial as we may have to, among other things, modify or increase the production capacity at our current manufacturing facilities or contract with third-party manufacturers and increase our commercial workforce. We have incurred, and may continue to incur, expenses as we create additional infrastructure to support our operations. Our liquidity and financial condition may be materially and adversely affected by negative net cash flows, and we cannot assure that we will have sufficient cash from other sources to fund our operations. We will likely need to obtain substantial additional funding in connection with our continuing operations through public or private equity offerings, debt financing, collaborations or licensing arrangements, or other sources. If we are unable to raise capital when needed or on acceptable terms, we could incur losses and be forced to delay, reduce, or terminate our research and development programs or commercialization efforts.

Although we believe our cash and cash equivalents and short-term investments as of December 31, 2022 will enable us to fund our operating expenses and capital expenditure requirements for at least the next twelve months, we could use our capital resources sooner than we currently expect. Our future capital requirements will depend on many factors, including:

- the cost and timing of future commercialization activities for ZEJULA, Optune, QINLOCK, NUZYRA, and any other product candidates for which we receive regulatory approval;

- the pricing of and product revenues received, if any, from future commercial sales of our approved products and any other products for which we receive regulatory approval;

- the scope, progress, timing, results, and costs of clinical development of our products in additional indications, if any;

- the scope, progress, timing, results, and costs of researching and developing our product candidates and conducting pre-clinical and clinical trials;

- the cost, timing, and outcome of seeking, obtaining, maintaining, and expanding regulatory approval of our products and product candidates;

- our ability to establish and maintain strategic partnerships, including collaboration, licensing, or other arrangements and the economic and other terms, timing, and success of such arrangements;

- the cost, timing, and outcome of preparing, filing, and prosecuting patent applications, maintaining and enforcing our intellectual property rights, and defending any intellectual property related claims;

- the extent to which we acquire or in-license other product candidates and technologies and the economic and other terms, timing, and success of such collaboration and licensing arrangements;

- cash requirements of any future acquisitions;

- the number, characteristics, and development requirements of the product candidates we pursue;

- resources required to develop and implement policies and processes to promote ongoing compliance with applicable healthcare laws and regulations;

- costs required to confirm that our and our partners' business arrangements with third parties comply with applicable healthcare laws and regulations;

- our headcount growth and associated costs; and

- the costs of operating as a public company in both the United States and Hong Kong.

Contractual Obligations and Commitments

As of December 31, 2022, purchase commitments amounted to $9.0 million, which is related to purchase of property and equipment contracted and expected to be incurred within one year. We do not have any other purchase commitments beyond one year.

Foreign Exchange Risk

Renminbi, or RMB, is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China ("**PBOC**"), controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Company included aggregated amounts of RMB316.8 million and RMB151.7 million, which were denominated in RMB, as of December 31, 2022 and 2021, respectively, representing 5% and 2% of the cash and cash equivalents as of December 31, 2022 and 2021, respectively.

Our business mainly operates in mainland China with a significant portion of our transactions settled in RMB, and our financial statements are presented in U.S. dollars. We do not believe that we currently have significant direct foreign exchange risk and have not used derivative financial instruments to hedge our exposure to such risk. Although, in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs and ordinary shares will be affected by the exchange rate between the U.S. dollar and the RMB and between the HK dollar and the RMB, respectively, because the value of our business is effectively denominated in RMB, while ADSs and ordinary shares are traded in U.S. dollars and HK dollars, respectively.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in Greater China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the Chinese government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the revised policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in a more than 20% appreciation of the RMB against the U.S. dollar in the following three years. Between July 2008 and June 2010, this appreciation halted, and the exchange rate between the RMB and U.S. dollar remained within a narrow band. In June 2010, the PBOC announced that the Chinese government would increase the flexibility of the exchange rate, and thereafter allowed the RMB to appreciate slowly against the U.S. dollar within the narrow band fixed by the PBOC. However, in August 2015, the PBOC significantly devalued the RMB.

The value of our ADSs and our ordinary shares will be affected by the foreign exchange rates between U.S. dollars, HK dollars, and the RMB. For example, to the extent that we need to convert U.S. dollars or HK dollars into RMB for our operations or if any of our arrangements with other parties are denominated in U.S. dollars or HK dollars and need to be converted into RMB, appreciation of the RMB against the U.S. dollar or the HK dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars or HK dollars for the purpose of making payments for dividends on ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar or the HK dollar against the RMB would have a negative effect on the conversion amounts available to us.

Since 1983, the Hong Kong Monetary Authority ("**HKMA**") has pegged the HK dollar to the U.S. dollar at the rate of approximately HK$7.80 to US$1.00. However, there is no assurance that the HK dollar will continue to be pegged to the U.S. dollar or that the HK dollar conversion rate will remain at HK$7.80 to US$1.00. If the HK dollar conversion rate against the U.S. dollar changes and the value of the HK dollar depreciates against the U.S. dollar, our assets denominated in HK dollars will be adversely affected. Additionally, if the HKMA were to repeg the HK dollar to, for example, the RMB rather than the U.S. dollar, or otherwise restrict the conversion of HK dollars into other currencies, then our assets denominated in HK dollars will be adversely affected.

Credit Risk

Financial instruments that are potentially subject to significant concentration of credit risk consist of cash and cash equivalents, short-term investments, accounts receivable, and notes receivable.

The carrying amounts of cash and cash equivalents and short-term investments represent the maximum amount of loss due to credit risk. As of December 31, 2022 and 2021, we had cash and cash equivalents of $1,008.5 million and $964.1 million and short-term investments of nil and $445.0 million, respectively. As of December 31, 2022 and 2021, all of our cash and cash equivalents and short-term investments were held by major financial institutions located in mainland China and international financial institutions outside of mainland China which we believe are of high credit quality and for which we monitor continued credit worthiness.

Accounts receivable are typically unsecured and are derived from product sales and collaborative arrangements. We manage credit risk related to our accounts receivable through ongoing monitoring of outstanding balances and limiting the amount of credit extended based upon payment history and credit worthiness. Historically, we have collected receivables from customers within the credit terms with no significant credit losses incurred. As of December 31, 2022, our two largest customers accounted for approximately 28% of our total accounts receivable collectively.

During the year ended December 31, 2022, certain accounts receivable balances were settled in the form of notes receivable. As of December 31, 2022, such notes receivable included bank acceptance promissory notes that are non-interest bearing and due within six months. These notes receivable were used to collect the receivables based on an administrative convenience, given these notes are readily convertible to known amounts of cash. In accordance with the sales agreements, whether to use cash or bank acceptance promissory notes to settle the receivables is at our discretion, and this selection does not impact the agreed contractual purchase prices.

Inflation

In recent years, mainland China has not experienced significant inflation. Although the global economy, including the U.S. economy, has experienced rising inflation in recent quarters, which can increase the costs of our products and product candidates purchased from third parties and, as a result, adversely affect our results of operations, inflation has not had a material impact on our results of operations. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in mainland China or in other countries in which our third-party partners operate.

Off-Balance Sheet Arrangements

During the periods presented we did not have, and we do not currently have, any off-balance sheet arrangements, as defined under the rules of the U.S. Securities and Exchange Commission, 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.

Gearing Ratio

The gearing ratio of the Company, which was calculated by dividing total interest-bearing loans by total shareholders' equity as of the end of the year, were both nil as of December 31, 2022 and 2021, because we do not have any interest-bearing loans.

Significant Investment Held

Except as disclosed in Note 8 to the consolidated financial statements, we did not hold any other significant investments as of December 31, 2022 and 2021.

Future Plans for Material Investments and Capital Assets

We do not have any future plans for material investments or capital assets as of December 31, 2022.

Material Acquisitions and Disposals of Subsidiaries, Associates, and Joint Ventures

During the year ended December 31, 2022, we did not have any acquisitions and disposals of subsidiaries and affiliated companies.

Employee and Remuneration Policy

As of January 31, 2023, we had a global team of 2,036 full-time employees, up from 1,951 full-time employees as of January 31, 2022. The remuneration policy and package of our employees are periodically reviewed by the Compensation Committee of the Board. The packages were set by benchmarking with companies in similar industries and companies with similar complexity and size. In addition to cash compensation and benefits, we may issue share options, share appreciation rights, restricted shares, unrestricted shares, share units including restricted share units, performance awards, and other types of awards to our employees in accordance with our equity incentive plans. We also provide comprehensive training programs to our employees to meet their various development needs, including leadership development programs, upskills programs, and on-the-job trainings. The total remuneration cost incurred by the Company was $263.9 million and $193.4 million for the years ended December 31, 2022 and 2021, respectively.

Charges on Group Assets

As of December 31, 2022 and 2021, we did not have any charges on the Company's assets.

Contingent Liabilities

As of December 31, 2022 and 2021, we did not have any material contingent liabilities. See Note 18 to the consolidated financial statements for contractual obligations under licenses and collaborative agreements.

Final Dividend

The Board did not recommend any final dividend for the year ended December 31, 2022 and 2021, respectively.

Recent Accounting Pronouncements

See Note 2 to our consolidated financial statements included in this announcement for information regarding recent accounting pronouncements.

OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company's corporate governance practices are based on the principles and code provisions set forth in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the HK Listing Rules.

Pursuant to code provision C.2.1 of the CG Code, companies listed on the Hong Kong Stock Exchange are expected to comply with, but may choose to deviate from, the requirement that the responsibilities of the Chairperson and the Chief Executive Officer should be segregated and should not be performed by the same individual. Dr. Samantha Du currently serves as our Chairperson and Chief Executive Officer. The Board believes that Dr. Samantha Du is the director best suited to serve as Chairperson. Dr. Du has an extensive understanding of our business and industry, is adept at identifying strategic opportunities, promoting the effective execution of those strategic initiatives, and facilitating the flow of information between management and the Board. In July 2022, the Board further enhanced our corporate governance by appointing Dr. John Diekman to be lead independent director. As lead independent director, Dr. Diekman will, among other things, lead meetings of the Board when the Chairperson is not present, serve as liaison between the Chairperson and independent directors, have the authority to call meetings of the independent directors, and, if requested by a significant portion of our shareholders, be available for consultation and direct communication. While the roles of Chairperson of the Board and Chief Executive officer are combined, the Board believes that the balance of power and authority on the Board will not be impaired due to this arrangement. The Board will continue to review the corporate governance structure and practices from time to time and shall make changes the Board considers appropriate.

Except as disclosed above, from the Primary Conversion Effective Date and up to the date of this announcement, the Company has complied with the provisions set out in the CG Code.

The Board will continue to periodically review and monitor its corporate governance practices for compliance with the CG Code and maintain a high standard of corporate governance practices of the Company.

Compliance with Policies Equivalent to the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted its own insider dealing policies on terms no less exacting than those in the Model Code for Securities Transactions as set out in Appendix 10 of the HK Listing Rules ("**Model Code**") regarding director dealings in the securities of the Company.

Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standards set forth in the Company's insider dealing policies during the Reporting Period.

Purchase, Sale, or Redemption of the Company's Listed Securities

During the Reporting Period, the Company did not purchase, sell, or redeem any of the Company's securities listed on the Hong Kong Stock Exchange.

Disclosure of Changes in Directors' Information Pursuant to Rule 13.51(B)(1) of the HK Listing Rules

Upon specific enquiry by the Company and following confirmations from directors, save as disclosed hereunder, there is no change in the information of the directors required to be disclosed pursuant to Rule 13.51B(1) of the HK Listing Rules during the Reporting Period. The changes in directors' information are set out below:

Directors	Changes
Dr. John Diekman	Appointed as Lead Independent Director and stepped down as chairman of the Audit Committee and continued to serve as a member of the Audit Committee, effective July 22, 2022; Elected to be a member of the Compensation Committee (in replacement of Ms. Nisa Leung), effective October 19, 2022
Mr. Scott W. Morrison	Appointed as chairman of the Audit Committee, effective July 22, 2022
Ms. Nisa Leung	Ceased to be a member of Compensation Committee, effective October 19, 2022

Use of Net Proceeds

Use of Net Proceeds from April 2021 Offering

In April 2021, the Company issued 224,000 ordinary shares (2,240,000 ordinary shares after the Share Subdivision) of the Company at a price of HK$1,164.20 per share (HK$116.42 per share after the Share Subdivision) and 5,492,400 ADSs at a price of US$150.00 per ADS for aggregate cash consideration (before deducting underwriting discounts and commissions and other offering expenses) of approximately $857.5 million. See Note 2(a) to the consolidated financial statements for additional information on the Share Subdivision.

As of the date of this announcement, there has been no change in the intended use of net proceeds raised from this offering, which amounted to approximately $818.0 million, as disclosed in the announcement of the Company dated April 21, 2021:

- approximately 30% of the net proceeds to fund new business and corporate development and licensing opportunities;
- approximately 30% of the net proceeds to complete clinical trials and advance new drug candidates;
- approximately 20% of the net proceeds to expand the Company's commercialization efforts;
- approximately 15% of the net proceeds to enhance the Company's global pipeline; and
- approximately 5% of the net proceeds for working capital and other general corporate purposes.

The following table sets forth a summary of the utilization of the net proceeds from this offering as of December 31, 2022 ($ in millions):

Purpose	Percentage to total amount	Net proceeds from the offering	Actual use of proceeds up to December 31, 2022	Unutilized amount as of December 31, 2022
fund new business and corporate development and licensing opportunities	30%	245.4	**—**	**245.4**
complete clinical trials and advance new drug candidates	30%	245.4	**135.8**	**109.6**
expand the Company's commercialization efforts	20%	163.6	**93.4**	**70.2**
enhance the Company's global pipeline	15%	122.7	**—**	**122.7**
working capital and other general corporate purposes	5%	40.9	**—**	**40.9**
Total	100%	818.0	**229.2**	**588.8**

The Company plans to gradually utilize the remaining net proceeds in accordance with such intended purpose depending on actual business, which is expected to be fully utilized by the end of 2025.

Use of Net Proceeds from the Global Offering

Dealings in ordinary shares on the Hong Kong Stock Exchange commenced on September 28, 2020. The net proceeds raised from the global offering ("**Global Offering**") as described in the prospectus of the Company dated September 17, 2020 (the "**Prospectus**"), after deduction of the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the Global Offering, were approximately HK$6,636.2 ($850.8 million). As of the date of this announcement, there has been no change in the intended use of net proceeds and the expected timeline as previously disclosed in the section "Use of Proceeds" in the Prospectus. The net proceeds received by the Company from the Global Offering will be used for the following purposes:

- approximately 16.0% will be allocated for ZEJULA to seek indication expansion and hire high-caliber R&D staff dedicated to its development, and to develop and improve the Company's manufacturing facilities to bring ZEJULA to commercialization;

- approximately 6.2% will be used to fund ongoing and planned clinical trials and preparation for registration filings of Tumor Treating Fields in multiple solid tumor cancer indications;

- approximately 16.0% will be used for ZEJULA to enhance the Company's commercialization capabilities through increasing its sales and marketing headcounts, among other efforts;

- approximately 8.0% will be used to strengthen commercialization efforts for Tumor Treating Fields through recruiting key talents in relevant indications to drive sales and future potential product launch;

- approximately 11.8% will be used to fund the Company's ongoing and planned clinical trials and preparation for registration filings of other drug candidates in the pipeline, especially late-stage drug candidates;

- approximately 25.0% will be used to explore new global licensing and collaboration opportunities and bring in potentially global best-in-class/first-in-class assets with clinical validation, synergistic with the Company's current pipeline, and aligned to its expertise;

- approximately 7.0% will be used to continue investing in and expanding the Company's internal discovery pipeline and recruit and train talent globally; and

- approximately 10.0% will be used to fund working capital and other general corporate purposes.

The following table presents a summary of the utilization of the net proceeds from the Global Offering as of December 31, 2022 ($ in millions):

Purpose	Percentage to total amount	Net proceeds from the offering	Actual use of proceeds up to December 31, 2022	Unutilized amount as of December 31, 2022
for ZEJULA to seek indication expansion and hire high-caliber R&D staff dedicated to its development, and to develop and improve the Company's manufacturing facilities to bring ZEJULA to commercialization	16.0%	136.1	**56.9**	**79.2**
fund ongoing and planned clinical trials and preparation for registration filings of Tumor Treating Fields in multiple solid tumor cancer indications	6.2%	52.7	**18.8**	**33.9**
for ZEJULA to enhance the Company's commercialization capabilities through increasing its sales and marketing headcounts, among other efforts	16.0%	136.1	**96.3**	**39.8**

Purpose	Percentage to total amount	Net proceeds from the offering	Actual use of proceeds up to December 31, 2022	Unutilized amount as of December 31, 2022
strengthen commercialization efforts for Tumor Treating Fields through recruiting key talents in relevant indications to drive sales and future potential product launch	8.0%	68.1	**42.8**	**25.3**
fund the Company's ongoing and planned clinical trials and preparation for registration filings of other drug candidates in the pipeline, especially late-stage drug candidates	11.8%	100.4	**100.4**	**—**
explore new global licensing and collaboration opportunities and bring in potentially global best-in-class/first-in-class assets with clinical validation, synergistic with the Company's current pipeline and aligned to its expertise	25.0%	212.7	**168.3**	**44.4**
continue investing in and expanding the Company's internal discovery pipeline and recruit and train talent globally	7.0%	59.6	**23.0**	**36.6**
fund working capital and other general corporate purposes	10.0%	85.1	**54.4**	**30.7**
Total	100%	850.8	**560.9**	**289.9**

The Company plans to gradually utilize the remaining net proceeds in accordance with such intended purpose depending on actual business, which is expected to be fully utilized by the end of 2025.

Audit Committee Review of Financial Statements

The Audit Committee of the Board oversees the accounting and financial reporting processes of the Company and the audits of the Company's financial statements, including but not limited to assisting the Board in its oversight of the integrity of the consolidated financial statements of the Company, the Company's compliance program, and the Company's risk management and internal control over financial reporting. As of the date of this announcement, the Audit Committee currently consists of three members, namely Mr. Scott W. Morrison, Dr. John Diekman, and Mr. Peter Wirth, all of whom are independent Directors. Mr. Scott W. Morrison is the chairman of the Audit Committee.

The Audit Committee has reviewed the consolidated financial statements and annual results of the Company for the year ended December 31, 2022. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal controls with members of senior management and the external auditor of the Company, KPMG LLP. The consolidated financial statements included in this announcement have been audited by KPMG LLP.

Other Board Committees

In addition to the Audit Committee, the Company has a Nominating and Corporate Governance Committee, a Compensation Committee, a Research and Development Committee, and a Commercial Committee.

Important Events after the Reporting Period

Effective January 7, 2023, Mr. Michel Vounatsos was appointed to the Board as an independent director, chairperson of the Commercial Committee, and a member of the Research and Development Committee. Mr. Vounatsos brings to the Board extensive global leadership and management experience in the biopharmaceutical industry, including more than 25 years of service at leading companies. His expertise includes significant commercial experience in China and worldwide.

The Board established a Commercial Committee with Mr. Vounatsos as chairperson of the Commercial Committee. The primary responsibility of the Commercial Committee is to make recommendations to the Board and management regarding the Company's commercial strategies, activities, and opportunities.

Effective January 13, 2023, Mr. William Lis and Mr. Leon O. Moulder, Jr., independent directors of the Company, were appointed as members of the Commercial Committee.

Save as disclosed above, no important events affecting the Company occurred since December 31, 2022 and up to the date of this announcement.

Annual General Meeting and Record Date

The annual general meeting of the Company (the "**AGM**") is scheduled to be held on June 20, 2023.

The Company announces that the record date for the purpose of determining the eligibility of the holders of the ordinary shares of the Company with par value of US$0.000006 each in the share capital of the Company (the "**Ordinary Shares**") to attend and vote at the forthcoming AGM will be on Thursday, April 20, 2023 (Shanghai and Hong Kong Time) (the "**Ordinary Share Record Date**"). In order to be eligible to attend and vote at the AGM, all valid documents for the transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, April 20, 2023 (Shanghai and Hong Kong Time). All persons who are registered holders of the Ordinary Shares on the Ordinary Share Record Date will be entitled to attend and vote at the AGM.

Holders of ADSs issued by Citibank, N.A., as depositary of the ADSs, and representing the right to receive the Ordinary Shares will not be entitled to attend the AGM and cannot vote their ADSs directly. Holders of record of ADSs as of 4:30 p.m. on Thursday, April 20, 2023 (U.S. Eastern Time) (the "**ADS Record Date**", together with the Ordinary Share Record Date, the "**Record Date**") may exercise the voting rights with respect to the Ordinary Shares underlying his, her or its ADSs in accordance with the provisions of the deposit agreement among the Company, Citibank, N.A. and the holders and beneficial owners of ADSs. Holders of record of ADSs as of the ADS Record Date who wish to exercise their voting rights for the underlying Ordinary Shares must act through Citibank, N.A. The deposit agreement permits registered holders of ADSs as of the ADS Record Date to instruct Citibank, N.A. to exercise the voting rights for the Ordinary Shares underlying his, her or its ADSs. Citibank, N.A. has agreed that it will endeavor, insofar as practicable and permitted under and in accordance with applicable law and the provisions of the deposit agreement, to vote the securities (in person or by proxy) represented by the holder's ADSs in accordance with such voting instruction. If a holder of ADSs cancels his, her or its ADSs in exchange for Ordinary Shares on or prior to the ADS Record Date, such holder of ADSs will not be able to instruct Citibank, N.A., as depositary of the ADSs, as to how to vote the Ordinary Shares represented by the cancelled ADSs as described above. Holders of ADSs who wish to cancel their ADSs in exchange for Ordinary Shares for the purpose of voting the Ordinary Shares directly will need to make arrangements to deliver their ADSs to Citibank, N.A., as depositary of the ADSs, for cancellation with sufficient time to allow for the completion of the delivery and, if applicable, the re-registration of the Ordinary Shares on the Company's register of members in Hong Kong prior to the Ordinary Share Record Date, together with (a) delivery instructions for the corresponding Ordinary Shares (including, if applicable, the name and address of the person(s) who will be the registered holder(s) of such Ordinary Shares) and (b) payment of the ADS depositary fees associated with such ADS cancellation (US$0.05 per ADS to be cancelled) and any applicable taxes. If ADSs are held in a brokerage firm, bank or other financial institution, please contact the broker, bank or other financial institution to find out what actions need to be taken to instruct the broker, bank or other financial institution to present the ADSs for cancellation. Please be aware that there are no guarantees of timely delivery or re-registration of Ordinary Shares prior to the Ordinary Share Record Date due to the time differences between U.S. Eastern Time and Shanghai and Hong Kong Time, as well as the time required for processing the ADS cancellations, the delivery of Ordinary Shares and, if applicable, the re-registration of Ordinary Shares on the Company's register of members in Hong Kong.

Details including the date and location of the AGM will be set out in the notice of AGM to be issued and provided to holders of our Ordinary Shares and ADSs as of the respective Record Date together with the proxy materials in due course.

Publication of Annual Results and Annual Report

This announcement is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Company (www.zailaboratory.com). The annual report of the Company for the Reporting Period will be published on the aforesaid websites and dispatched to the Company's shareholders in due course.

By order of the Board
Zai Lab Limited
Samantha Du
Director, Chairperson
and Chief Executive Officer

Hong Kong, March 31, 2023

As at the date of this announcement, the board of directors of the Company comprises Dr. Samantha Du as a director, and Dr. Kai-Xian Chen, Dr. John Diekman, Ms. Nisa Leung, Mr. William Lis, Mr. Leon O. Moulder, Jr., Mr. Peter Wirth, Mr. Scott W. Morrison, Richard Gaynor, M.D. and Mr. Michel Vounatsos as independent directors.

** For identification only*