You should read the following discussion and analysis in conjunction with our consolidated financial statements included in "Appendix I — Accountants' Report" to this document, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with IFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. For details, please see "Forward-looking Statements" and "Risk Factors" in this document.

OVERVIEW

We are a biotechnology company committed to developing innovative human vaccines and therapeutic biologics to prevent and control infectious diseases and treat cancer and autoimmune diseases. Since our inception in 2001, we have focused on human medicine with our understanding of immunology and protein engineering and have established a comprehensive and advanced product pipeline covering human vaccine candidates, monoclonal antibody product candidates and bispecific antibody product candidates:

- Our independently developed recombinant herpes zoster vaccine candidate, LZ901 has a tetrameric molecular structure, and has demonstrated favorable immunogenicity, efficacy and safety profile in pre-clinical studies, while inducing strong specific humoral and cellular immunity.

- Our independently developed recombinant human anti-tumor necrosis factor ("**TNF**")-α monoclonal antibody injection product candidate, K3, mainly used for the treatment of various autoimmune diseases, such as rheumatoid arthritis, ankylosing spondylitis and psoriasis, is a biosimilar of Humira® (adalimumab). In our Phase I clinical trial in China, K3 displayed pharmacokinetics consistent with adalimumab.

- Our independently developed bispecific antibody injection (CD19-CD3) product candidate for the treatment of B cell leukemia and lymphoma, K193, is a bispecific antibody with an asymmetric structure. In our pre-clinical studies, K193 displayed high *in vivo* and *in vitro* anti-tumor activity, and its optimized formulation is stable and convenient to use. K193's unique mechanism of action endows it with a strong ability to treat various types of B cell lymphomas. The safe and controllable administration of K193 also reduces the impact of patient stress caused by medication administration.

During the Track Record Period, we had loss and total comprehensive expense of RMB539.4 million and RMB725.2 million in 2021 and 2022, respectively. Substantially all of our loss and total comprehensive expense resulted from research and development expenses, administrative expenses and fair value losses on financial liabilities at FVTPL.

We expect to incur an increased amount of operating expenses, including increasing research and development expenses and administrative expenses, for at least the next several years as we conduct further pre-clinical research, continue the clinical development of, seek regulatory approval for and manufacturing of, our product candidates, launch and promote our pipeline products, and add personnel necessary to operate our business. Subsequent to the [**REDACTED**], we expect to incur costs associated with operating as a [**REDACTED**] company. We expect that our financial performance will fluctuate from period to period affected by the development status of our product candidates, regulatory approval timeline and commercialization of our product candidates after approval.

BASIS OF PREPARATION

Our Company was established in Beijing, the PRC on November 9, 2001 as a limited liability company. Our Company was converted to a joint stock company with limited liability on July 19, 2013. For details, please see the paragraph headed "History, Development and Corporate Structure — Our Corporate Development" in this document.

The historical financial information has been prepared in accordance with accounting policies set out in Note 3.2 to the Accountants' Report in Appendix I to this document, which conform with IFRSs issued by IASB. In addition, the historical financial information included applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

The historical financial information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, we takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the historical financial information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Growth of China's Vaccine Market

Our business expansion and revenue growth depend on the growth of the overall vaccine market in the PRC. Favorable government policies, technological advancement and increasing awareness and affordability of vaccination have driven the growth of the PRC vaccine industry. According to Frost & Sullivan, the vaccine market size in China is expected to increase from RMB92.6 billion in 2021 to RMB189.2 billion in 2025 with a CAGR of 19.5% from 2021 to 2025. The market is estimated to further rise to RMB301.9 billion in 2030 with a CAGR of 9.8% from 2025 to 2030. See "Industry Overview" in this document for the market size of the PRC vaccine market in general and for the markets of our vaccine product candidates.

In addition to the overall growth of the PRC vaccine market, we have benefited from and expect to continue to benefit from favorable industry trends such as public awareness and acceptance of vaccination in the wake of the COVID-19 pandemic outbreak. Furthermore, the growth of aging population has also contributed to and are expected to continue to contribute to the overall increase in the demand for vaccines. We believe we are well positioned to benefit from market opportunities in the fast-growing PRC vaccine industry and expect our results of operations to continue to improve in the future. For details, please see "Industry Overview" in this document.

Our Ability to Successfully Develop and Commercialize Our Product Candidates

Our business and results of operations will be dependent on our receipt of regulatory approval for and successful commercialization of our product candidates. As of the Latest Practicable Date, we had established a comprehensive and advanced product pipeline covering human vaccine candidates, monoclonal antibody product candidates and bispecific antibody product candidates. As of the Latest Practicable Date, we had initiated a number of clinical trials for our product candidate, and we expect to initiate additional clinical trials in the future. For LZ901, our Core Product, we have initiated a Phase I clinical trial in January 2022 and completed the Phase I clinical trial and initiated a Phase II clinical trial in China in April 2022. We expect to complete the Phase II clinical trial in the second quarter of 2023, initiate a Phase III clinical trial in the second quarter of 2023, and file the BLA in the third quarter of 2024 for LZ901 to the NMPA. In addition, we have received IND approval from the FDA in July 2022 for LZ901 and initiated a Phase I clinical trial in the U.S. in February 2023. We plan to complete the Phase I clinical trial and initiate a Phase II clinical trial in the first quarter of 2024. Furthermore, we expect to complete the Phase II clinical trial in the second quarter of 2025, initiate a Phase III clinical trial in the fourth quarter of 2025, and complete the Phase III clinical trial in the second quarter of 2027.

For K3, a biosimilar of adalimumab, we initiated our Phase I clinical trial in September 2018, and completed Phase I clinical trial in China in December 2019, which displayed pharmacokinetics consistent with adalimumab. We plan to initiate a Phase III clinical trial for K3 in the second quarter of 2023 and submit the BLA to the NMPA in the fourth quarter of 2024. We expect K3 to receive BLA approval from the NMPA in 2025. Please see "Business — Our Products and Product Candidates — Our Core Product and Clinical-Stage Product Candidates" in this document for more information on the development status of our product candidates.

Once our product candidates are commercialized, our business and results of operations will be driven by the market acceptance and supply of our commercialized products. To achieve successful launch of our product candidates, we intend to continue advancing clinical trials and registration of our pipeline, and our product commercialization process. For more details, see "Business — Our Strategies" in this document.

Cost Structure

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

Research and development activities are crucial to our business. Our research and development expenses amounted to RMB43.0 million and RMB91.4 million in 2021 and 2022, respectively. Our research and development expenses primarily consisted of staff costs, including salaries, welfare and share-based payments to our research and development personnel, third-party contracting costs, costs of raw materials and depreciation and amortization. We expect our research and development expenses to increase significantly in the foreseeable future, as we initiate clinical trials for our pre-clinical product candidates and progress ongoing clinical trials into later stages

Our administrative expenses primarily consisted of staff costs, mainly including salaries, welfare and share-based payments to our administrative staff, depreciation and amortization, and others primarily representing office and utilities expenses, transportation and travel expenses, tax and surcharges and other miscellaneous administrative expenses. Our administrative expenses amounted to RMB60.2 million and RMB85.8 million in 2021 and 2022, respectively. We expect our administrative expenses to increase in the future to support our business expansion. We also anticipate increasing legal, compliance, accounting and investor relations expenses associated with being a [**REDACTED**] company. We also anticipate incurring selling expenses once we commercialize our product candidates.

Funding for Our Operations

During the Track Record Period, we funded our operations primarily through capital contributions from our shareholders and equity financing. Going forward, with the continuing expansion of our business and our product pipeline, we may require further funding from our existing shareholders, through public or private [**REDACTED**], debt financing, collaborations and licensing arrangements or other sources. In the event of successful commercialization of one or more of our product candidates, we expect to fund our operations in part with revenue generated from sales of our products. Any fluctuation in our ability to fund our operations will impact our cash flow and our results of operations.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that we believe to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. When reviewing our consolidated financial statements, you should consider (i) our critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Significant Accounting Policies

Revenue from Contracts with Customers

We recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. Control is transferred over time and the revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service. A contract liability represents our Group's obligation to transfer goods or services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

Share-Based Payments

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

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on our Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, our

Group revises our estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. For shares/share options that vest immediately at the date of grant, the fair value of the shares/share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will continue to be held in share-based payments reserve.

When shares granted are vested, the amount previously recognized in share-based payments reserve will be transferred to share premium.

When the terms and conditions of an equity-settled share-based payment arrangement are modified, the Group recognizes, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. In addition, if the Group modifies the vesting conditions (other than a market condition) in a manner that is beneficial to the employees, for example, by reducing the vesting period, the Group takes the modified vesting conditions into consideration over the remaining vesting period.

The incremental fair value granted, if any, is the difference between the fair value of the modified equity instruments and that of the original equity instruments, both estimated as at the date of modification.

If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from modification date until the date when the modified equity instruments are vested, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period.

If the modification reduces the total fair value of the share-based arrangement, or is not otherwise beneficial to the employee, the Group continues to account for the original equity instruments granted as if that modification had not occurred.

Property, Plant and Equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment (other than construction in progress), are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized, in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

When our Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statements of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment, other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible asset

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Variable payments that are dependent on the Group's future activity are excluded from the initial measurement of intangible assets and instead are recognized as a liability when the condition that triggers the obligation occurs. The subsequent changes in the liability are recognized as an adjustment to the cost of the intangible assets if it is determined that the future payment is related to the cost of the assets or otherwise recognized as an expense in the period in which they are incurred.

Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and Development Expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Financial Asset at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses, net" line item.

Financial Liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 Business Combinations applies, (ii) held for trading or (iii) designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability.

Critical Accounting Judgments and Key Sources of Estimation Uncertainties

In the application of the Group's accounting policies, which are described in Note 3 to the Accountants' Report in Appendix I to this document, our Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Research and development expenditures

Development costs incurred on the Group's vaccines and therapeutic biologics pipelines are capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development costs which do not meet these criteria are expensed when incurred.

The Directors will assess the progress of each of the research and development projects and determine the criteria are met for capitalization. During the Track Record Period, all development costs are expensed when incurred.

Fair Value Measurement of Financial Liabilities at FVTPL

We has issued preference shares with preference rights including liquidation preferences, anti-dilution right and redemption right during the Track Record Period as set out in note 27 to the Accountant's Report in Appendix I. We bifurcated the preference rights as financial liabilities at FVTPL of which no quoted prices in an active market exist. The fair value is established by using valuation techniques which include back-solve method and adopted equity allocation model. Valuation techniques are certified by an independent and recognized international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on our own specific data. However, it should be noted that some inputs, such as fair value of the ordinary shares of our Company, possibilities under different scenarios such as [**REDACTED**] and liquidation, time to liquidation and discount for lack of marketability, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the other financial liabilities at FVTPL. The fair values of the preference rights are set out in note 27 to the Accountant's Report in Appendix I.

In relation to the valuation of the financial liabilities at FVTPL, our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the terms of preference shares agreements; (ii) engaged independent business valuer, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (iii) carefully considered all information especially those non-market related information input, such as fair value of the ordinary shares of our Company, possibilities under different scenarios, time to liquidation and discount for lack of marketability, which require management assessments and estimates; and (iv) reviewed the valuation working papers and results prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable, and the financial statements of our Group are properly prepared.

Details of the fair value measurement of financial liabilities at FVTPL, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Notes 27 and 33 to the Historical Financial Information of Group for the Track Record Period as set out in the accountants' report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The reporting accountants' opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on I-2 of Appendix I.

In relation to valuation analysis performed by valuer on the level 3 financial liabilities at FVTPL, the Sole Sponsor has conducted relevant due diligence work, including but not limited to (i) reviewed relevant notes to the Accountant's Report in Appendix I to this document; (ii) reviewed the professional qualification of the valuer engaged by the Company for the financial liabilities at FVTPL measured within level 3 fair value measurement; (iii) reviewed relevant valuation documents prepared by the valuer; (iv) reviewed the terms of relevant agreements and documents regarding the financial liabilities at FVTPL; and (v) discussed with the Company, the Reporting Accountants and the valuer to understand, among others, (a) the audit work and accounting treatment of the relevant financial liabilities at FVTPL, (b) the relevant auditing standards regarding the relevant financial liabilities at FVTPL, (c) the valuation standards of the relevant financial liabilities at FVTPL including but not limited to the valuation standards established by the International Valuation Standards Counsel, and (d) the rationale, method, key assumption and basis of the valuation. Having considered the above, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the relevant valuation work performed by the valuer for the said valuation.

DESCRIPTION OF SELECTED COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Other income	6,896	13,923
Other gains and losses, net	10,794	15,100
Fair value loss of financial liabilities at FVTPL	(441,077)	(551,546)
Administrative expenses	(60,217)	(85,830)
Research and development expenses	(42,983)	(91,426)
Finance costs	(603)	(722)
[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
Other expenses	(9,041)	(3,137)
Loss before tax	**(539,357)**	**(725,180)**
Income tax expense	–	–
Loss and total comprehensive expense for the year	**(539,357)**	**(725,180)**

Other Income

During the Track Record Period, our other income primarily consisted of (i) rental income primarily due to the lease of our Beijing facility to a pharmaceutical company, (ii) income from sales of our testing kits primarily to pharmaceutical companies, local CDCs or distributors on an order basis, (iii) government grants, (iv) interest income on bank balances, and (v) interest income from rental deposits for the lease of our facility in Zhuhai.

Our government grants mainly included subsidies from local PRC governments which are specifically for (i) compensations of the capital expenditure incurred for purchase of plant and machinery and lease of assets in relation to research and development products, which are recognized over the useful life of assets and (ii) research and development activities, which are recognized upon compliance with the attached conditions.

The following table sets forth a breakdown of our other income for the periods indicated:

	Year ended December 31,			
	2021		2022	
	RMB'000	*%*	*RMB'000*	*%*
Rental income from investment property	2,350	34.1	–	–
Income from sales of testing kits	2,616	37.9	2,056	14.8
Government grants	1,889	27.4	11,618	83.4
Interest income on bank balances	25	0.4	223	1.6
Interest income from rental deposits	16	0.2	26	0.2
Total	**6,896**	**100.0**	**13,923**	**100.0**

Other Gains and Losses, Net

During the Track Record Period, our other gains and losses, net, primarily consisted of (i) fair value gains on financial assets at FVTPL mainly representing the gains from our wealth management products, (ii) loss on disposal of property, plant and equipment, and (iii) net foreign exchange gains.

The following table sets forth a breakdown of our other gains and losses, net, for the periods indicated:

	Year ended December 31,			
	2021		2022	
	RMB'000	%	*RMB'000*	%
Fair value gains on financial assets at FVTPL	10,804	100.1	13,868	91.8
Loss on disposal of property, plant and equipment	(11)	(0.1)	(3)	–
Foreign exchange gains, net	1	0.0	996	6.6
Gain on early termination of a lease	–	–	239	1.6
Total	**10,794**	**100.0**	**15,100**	**100.0**

Fair Value Loss of Financial Liabilities at FVTPL

Our fair value loss of financial liabilities at FVTPL mainly represented the fair value change of our preference shares we issued in our Series A Financing, Series B Financing, Series B+ Financing and Series C Financing. Our obligations with respect to special rights granted to [**REDACTED**] Investors, other than information rights, were terminated in June 2022, and therefore we do not expect to incur additional fair value loss of financial liabilities thereafter.

Administrative Expenses

During the Track Record Period, our administrative expenses primarily consisted of (i) staff costs for our administrative personnel, mainly including salaries and welfare and share-based payments primarily presenting share options and awards granted to our administrative personnel, (ii) depreciation and amortization of our facilities, right-of-use assets and equipment for administrative purposes, and (iii) others primarily representing office and utilities expenses, transportation and travel expenses, tax and surcharges and other miscellaneous administrative expenses.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,			
	2021		2022	
	RMB'000	%	*RMB'000*	%
Staff costs				
– salaries and welfares	6,165	10.2	9,883	11.5
– share-based payments	49,437	82.1	68,925	80.3
Depreciation and amortization	1,781	3.0	2,988	3.5
Others	2,834	4.7	4,034	4.7
Total	**60,217**	**100.0**	**85,830**	**100.0**

Research and Development Expenses

During the Track Record Period, our research and development expenses primarily consisted of (i) staff costs for our research and development personnel, mainly including salaries and welfare and share-based payment primarily representing share options and awards granted to our research and development personnel, (ii) third-party contracting costs mainly representing testing fees, clinical expenses and assessment fees in connection with our research and development activities, (iii) costs of raw materials in support of our research and development activities, (iv) depreciation and amortization of our facilities, right-of-use assets and machinery for research and development purposes, and (v) other miscellaneous research and development expenses.

The following table sets forth a breakdown of our research and development expenses for the periods indicated:

	Year ended December 31,			
	2021		2022	
	RMB'000	%	*RMB'000*	%
Staff costs				
– salaries and welfare	5,118	11.9	12,380	13.5
– share-based payments	26,801	62.4	42,488	46.5
Sub-contracting costs	5,395	12.6	17,849	19.5
Costs of raw materials	1,268	3.0	7,941	8.7
Depreciation and amortization	4,312	10.0	6,787	7.4
Others	89	0.1	3,981	4.4
Total	**42,983**	**100.0**	**91,426**	**100.0**

The research and development expenditures, excluding share-based payments, incurred for our Core Product, increased from RMB6.2 million in 2021 to RMB38.2 million in 2022, primarily due to our initiations of the Phase I clinical trial and the Phase II clinical trial for LZ901 in China in 2022.

Our research and development expenses increased from RMB43.0 million in 2021 to RMB91.4 million in 2022, largely due to (i) an increase of share-based payments of RMB15.7 million primarily arising from the share options and awards we granted to our research and development personnel and (ii) an increase of sub-contracting costs of RMB12.5 million mainly arising from our Phase I clinical trial and Phase II clinical trial for LZ901.

Finance Costs

During the Track Record Period, our finance costs were RMB0.6 million and RMB0.7 million in 2021 and 2022, respectively, which represented interest expenses on lease liabilities mainly resulting from the lease of our facility in Zhuhai.

Other Expenses

During the Track Record Period, our other expenses mainly consisted of (i) direct operating expenses incurred for investment property, mainly representing the depreciation and amortization and property tax of our leased-out Beijing facility, (ii) costs mainly arising from manufacturing and selling our testing kits, (iii) costs of issuing preference shares, and (iv) other miscellaneous expenses.

The following table sets forth a breakdown of our other expenses for the periods indicated:

	Year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Direct operating expenses incurred for investment property	744	–
Cost of testing kits sold	853	590
Issue costs for the financial liabilities at FVTPL	6,194	2,547
Others	1,250	–
Total	**9,041**	**3,137**

Income Tax Expenses

We did not record any income tax expense during the Track Record Period. Our principal applicable taxes and tax rates are set forth as follows:

Mainland China

Under the law of the PRC on Enterprise Income Tax (the "**EIT Law**") and implementation regulations of the EIT Law, the basic tax rate of our Company and our PRC subsidiary is 25%.

Luzhu Biotechnology has been accredited as a High and New Technology Enterprise by the Science and Technology Bureau of Beijing and relevant authorities on October 31, 2018. Pursuant to the notice of the Ministry of Finance and the State Administration of Taxation on extending the loss carrying forward period of high and new technology enterprises and high-tech small and medium enterprises (Cai Shui 2018 No. 76), with effect from January 1, 2018, for qualified high and new technology enterprises and high-tech small and medium enterprises, the unutilized tax losses incurred in the previous 5 years can be utilized in 10 years from the year of loss. Our Company was qualified as high and new technology enterprise on October 31, 2018 and the unutilized tax losses of our Company incurred between 2013 to 2020 can be utilized in 10 years from the year of loss.

Pursuant to relevant laws and regulations promulgated by the State Administration of Taxation of the PRC effective from 2018 onwards, our PRC subsidiaries enjoy an accelerated deduction of 175% on qualifying research and development expenditures throughout the Track Record Period. As of December 31, 2021 and 2022, we had unused tax losses of approximately RMB93.0 million and RMB170.5 million, respectively. Please see Note 10 to Accountants' Report set forth in Appendix I to this document for more details.

No provision for PRC income tax was made as our Company and our PRC subsidiary incurred tax losses during the Track Record Period.

Our Directors confirm that during the Track Record Period, we had made all the required tax filings and had paid all outstanding tax liabilities with the relevant tax authorities in the relevant jurisdictions and we are not aware of any outstanding or potential disputes with such tax authorities.

Hong Kong

No Hong Kong profit tax was provided for as there was no estimated assessable profit of our Hong Kong subsidiary that was subject to Hong Kong profit tax during the Track Record Period.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Other Income

Our other income increased from RMB6.9 million in 2021 to RMB13.9 million in 2022, primarily due to the increase of government grants of RMB9.7 million mainly related to subsidies to support our research and development activities in Zhuhai.

Other Gains and Losses, Net

Our net other gains increased from RMB10.8 million in 2021 to RMB15.1 million in 2022, primarily arising from an increase of fair value gains on financial assets at FVTPL of RMB3.1 million mainly as we purchased additional wealth management products using proceeds from our [**REDACTED**] Investments.

Fair Value Loss of Financial Liabilities at FVTPL

Our fair value loss of financial liabilities at FVTPL increased from RMB441.1 million in 2021 to RMB551.5 million in 2022, mainly due to relatively higher increase of valuation of our Company in 2022, as a result of the initiation of the Phase II clinical trial for LZ901 in China in April 2022. For details about the fair value change of our financial liabilities at FVTPL, please see Note 27 to the Accountants' Report set forth in Appendix I to this document.

Administrative Expenses

Our administrative expenses increased from RMB60.2 million in 2021 to RMB85.8 million in 2022, mainly arising from an increase of share-based payments of RMB19.5 million primarily in relation to share options and awards granted to our administrative personnel and an increase of salaries and welfare of RMB3.7 million primarily as a result of increased headcount and salary in our administrative team. For more details about our share-based payments, please see Note 31 to the Accountants' Report set forth in Appendix I to this document.

Research and Development Expenses

Our research and development expenses increased from RMB43.0 million in 2021 to RMB91.4 million in 2022, largely due to (i) an increase of share-based payments of RMB15.7 million primarily arising from the share options and awards we granted to our research and development personnel and (ii) an increase of sub-contracting costs of RMB12.5 million mainly arising from our Phase I clinical trial and Phase II clinical trial for LZ901.

Finance Costs

Our finance costs remained stable in 2021 and 2022, amounting to RMB0.6 million and RMB0.7 million, respectively.

[**REDACTED**] ***Expenses***

We incurred [**REDACTED**] expenses of RMB[**REDACTED**] and RMB[**REDACTED**] in connection with the [**REDACTED**] in 2021 and 2022, respectively.

Other Expenses

Our other expenses decreased from RMB9.0 million in 2021 to RMB3.1 million in 2022, largely due to a decrease of issue costs for the financial liabilities at FVTPL of RMB3.6 million, primarily representing the legal and professional fees we incurred for our Series B Financing and Series B+ Financing.

Loss and Total Comprehensive Expense for the Period

As a result of the foregoing, our loss and total comprehensive expense increased from RMB539.4 million in 2021 to RMB725.2 million in 2022.

DISCUSSION OF CERTAIN SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as at the dates indicated:

	As of December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Total non-current assets	151,602	469,166
Total current assets	574,293	601,004
Total assets	**725,895**	**1,070,170**
Total non-current liabilities	1,286,998	38,590
Total current liabilities	23,422	94,114
Net current assets	**550,871**	**506,890**
Total liabilities	**1,310,420**	**132,704**
Net (liabilities) assets	**(584,525)**	**937,466**
Share capital	90,888	192,064
Reserves	(675,413)	745,402
Total (deficits) equity	**(584,525)**	**937,466**

Current Assets and Liabilities

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

	As of December 31,		As of February 28,
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Current assets			
Materials	5,323	2,535	2,467
Prepayments, deposits and other receivables	4,575	16,829	19,400
Financial assets at FVTPL	532,365	512,664	349,939
Bank balances and cash	32,030	68,976	207,254
Total current assets	**574,293**	**601,004**	**579,100**
Current liabilities			
Advance payments received and other payables	14,785	84,714	98,328
Contract liability	237	–	–
Deferred government grants	8,400	9,400	9,400
Total current liabilities	**23,422**	**94,114**	**107,728**
Net current assets	**550,871**	**506,890**	**471,372**

Our net current assets decreased from RMB550.9 million as of December 31, 2021 to RMB506.9 million as of December 31, 2022, largely due to (i) a decrease of financial assets at FVTPL of RMB19.7 million mainly as a result of an increase of redemption of wealth management products relating to the purchase of property and facilities in 2022; (ii) an increase of advance payments received and other payables of RMB69.9 million mainly representing payables for acquisition of property, plant and equipment relating to the balance of construction and equipment of our facility in Zhuhai, partially offset by an increase of bank balances and cash of RMB36.9 million primarily due to the redemption of mature wealth management products.

Property, Plant and Equipment

During the Track Record Period, our property, plant and equipment primarily consisted of (i) property, (ii) leasehold improvements, (iii) machinery, (iv) vehicles, (v) office equipment and (vi) construction in progress. The following table sets forth a breakdown of our property, plant and equipment as of the dates indicated:

	As of December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Property	3,745	2,569
Leasehold improvement	3,369	20,206
Machinery	6,846	51,840
Vehicles	1,037	769
Office equipment	884	1,429
Construction in progress	60,148	152,814
Total	**76,029**	**229,627**

Our property, plant and equipment increased from RMB76.0 million as of December 31, 2021 to RMB229.6 million as of December 31, 2022, mainly due to (i) an increase of leasehold improvement of RMB16.8 million, (ii) an increase of machinery of RMB45.0 million, and (iii) an increase of construction in progress of RMB92.7 million primarily reflecting additional progress and purchase of equipment of our manufacturing facilities under construction in Zhuhai.

Right-of-Use Assets

Our right-of-use assets were primarily related to our land use rights and leased facilities for our operations during the Track Record Period.

Our right-of-use assets decreased from RMB66.2 million as of December 31, 2021 to RMB62.5 million as of December 31, 2022, primarily due to (i) an early termination of the lease of our Beijing facility and (ii) the amortization of our right-of-use assets in Zhuhai.

Investment Property

Our investment property primarily represented the portion of our facility in Beijing leased to a pharmaceutical company. We recorded investment property of nil as of December 31, 2021 and December 31, 2022.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables mainly consisted of (i) prepayments for purchase of property, plant and equipment, (ii) prepayments for right-of-use assets, (iii) value added tax recoverable, (iv) prepayments to suppliers and service providers, (v) deferred share issue costs for [**REDACTED**], which represents the part of [**REDACTED**] costs that will be capitalized upon the completion of [**REDACTED**], (vi) prepayments for [**REDACTED**] expenses, (vii) rental deposits, (viii) other prepayments, and (ix) others. The following table sets forth a breakdown of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Prepayments for purchase of property, plant and equipment	1,983	108,921
Prepayments for right-of-use assets	–	45,277
Value added tax recoverable	7,115	19,129
Prepayments to suppliers and service providers	1,576	4,901
Deferred share issue costs for [**REDACTED**]	1,458	11,350
Prepayments for [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
Rental deposits	295	313
Other prepayments	360	19
Others	43	558
Total	**13,968**	**190,469**

Our prepayments, deposits and other receivables increased from RMB14.0 million as of December 31, 2021 to RMB190.5 million as of December 31, 2022, primarily as a result of (i) an increase of prepayments for purchase of property, plant and equipment of RMB106.9 million mainly representing prepayments for the project of our facility in Zhuhai and prepayments for the property in Beijing, (ii) an increase of prepayments for right-of-use assets of RMB45.3 million mainly relating to the purchase of property in Beijing, (iii) an increase of value added tax recoverable of RMB12.0 million largely relating to the purchase of property in Beijing, and (iv) an increase of deferred share issue costs for [**REDACTED**] of RMB9.9 million.

Materials

During the Track Record Period, our materials mainly consisted of raw materials in support of our research and development activities and testing kits. Our materials decreased from RMB5.3 million as of December 31, 2021 to RMB2.5 million as of December 31, 2022, primarily as a result of a decrease of materials for research and development projects, mainly relating to the trial use and commissioning of the large equipment installed.

Financial Assets at FVTPL

During the Track Record Period, our financial assets at FVTPL mainly represented short-term and low-risk wealth management products issued by reputable commercial banks in the PRC. The expected but not guaranteed rates of return approximately ranged from 2.8% to 3.7% per annum. These wealth management products generally have a maturity date of 90 days, six months or a year or are redeemable on demand.

In accordance with our risk management, and investment strategy, we managed and evaluated the performance of these investments on a fair value basis and therefore these investments are designated as financial assets at fair value through profit or loss as of December 31, 2021 and 2022. Our financial assets at FVTPL decreased from RMB532.4 million as of December 31, 2021 to RMB512.7 million as of December 31, 2022 mainly as a result of an increase of redemption of wealth management products relating to the purchase of property and facilities in 2022.

We have implemented a series of treasury policies and internal control policies and rules regarding investment in wealth management products to ensure that the purpose of investment is to preserve capital and liquidity until free cash is used in our primary business and operation. Prior to making an investment, we ensure that there remains sufficient working capital for our business needs, operating activities, research and development and capital expenditures even after purchasing such wealth management products. We adopt a prudent approach in selecting financial products. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, such as duration of the investment and the expected returns. We prefer wealth management products that are redeemable on demand and the purchase of any wealth management product with a maturity date longer than 90 days is subject to approval from our general manager. Each month personnel from our finance department will prepare a wealth management products purchase plan, based on anticipated expenditures in the relevant month, operational expenses in the past months, and our then cash and bank balances, for the manager to review. The manager of our finance department will then submit the plan to our management to review and approve. In particular when the purchase amount of a single wealth management product is between RMB10 million and RMB50 million, approval from chairman of Board is required, and when the purchase amount is above RMB50 million, approval from the Board is required. To control our risk exposure, we have in the past sought, and may continue in the future to seek other low-risk financial products. Additionally, we mainly invest in financial products offered by reputable commercial banks in China. After making an investment, we closely monitor its performance and fair value on a regular basis. Our finance department will record details of each wealth management product, including purchase amount, redemption and return. A designated personnel from our finance department will actively monitor our expenditures and cash and bank balances. We will promptly redeem our wealth management products when we anticipate that our then cash and bank balances will not be sufficient for our operation in the next few days and the redemption is subject to approval by our deputy general manager. Upon the [**REDACTED**], our investment in wealth management products is subject to the compliance with Chapter 14 of the Listing Rules.

Bank Balances and Cash

During the Track Record Period, our bank balances and cash were denominated in Renminbi and US dollars. The following table sets forth a breakdown of our bank balances and cash as of the dates indicated:

	As of December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Cash on hand	5	–
Bank balances	32,025	68,976
Total	**32,030**	**68,976**

Our bank balances and cash increased from RMB32.0 million as of December 31, 2021 to RMB69.0 million as of December 31, 2022, primarily as a result of the redemption of mature wealth management products.

Advance Payments Received and Other Payables

Our trade and other payables mainly included (i) payables for research and development activities, (ii) payables for acquisition of property, plant and equipment, (iii) accrued salaries and other allowances, (iv) accrued [**REDACTED**] expenses, (v) accrued share issue costs for [**REDACTED**], (vi) other tax payables and (vii) others. The following table sets forth a breakdown of advance payments received and other payables as at the dates indicated:

	As of December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Payables for research and development activities	1,013	2,424
Payables for acquisition of property, plant and equipment	9,473	67,093
Accrued salaries and other allowances	3,152	3,885
Accrued [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
Accrued share issue costs for [**REDACTED**]	335	3,638
Other tax payables	75	107
Others	35	46
Total	**14,785**	**84,714**

Our advancement payments received and other payables increased from RMB14.8 million as of December 31, 2021 to RMB84.7 million as of December 31, 2022, primarily due to (i) an increase of payables for research and development activities of RMB1.4 million, (ii) an increase of accrued [**REDACTED**] expense of RMB[**REDACTED**], (iii) an increase of accrued share issues costs for [**REDACTED**] of RMB3.3 million in relation to the [**REDACTED**], and (iv) an increase of payables for acquisition of property, plant and equipment of RMB57.6 million, mainly representing the outstanding payment for the additional office equipment and machinery purchased by Zhuhai Luzhu.

Contract Liability

Our contract liabilities mainly represented the prepayment for testing kits that we had not yet delivered to our customers. We recorded contract liabilities of RMB0.2 million and nil as of December 31, 2021 and 2022, respectively.

Deferred Government Grants

Our deferred government grants mainly consisted of (i) grants related to purchase of plant and machinery and right-of-use assets, which are recognized over the useful life of the related assets and (ii) grants related to research and development activities, which are recognized upon compliance with the attached conditions. The following table sets forth the breakdown of our deferred government grants as of the dates indicated:

	As of December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Government grants related to		
– plant and machinery	18,023	17,828
– right-of-use assets	12,478	9,543
– research and development activities	16,800	9,400
Total	**47,301**	**36,771**

Our deferred government grants decreased from RMB47.3 million as of December 31, 2021 to RMB36.8 million as of December 31, 2022 primarily due to a release of deferred government grants related to right-of-use assets of RMB2.9 million and a release of deferred government grants related to research and development activities of RMB8.4 million. For more details of our deferred government grants, please see Note 26 to Accountants' Report set forth in Appendix I to this document.

Lease Liabilities

Our lease liabilities were primarily related to our leases of properties for business operation and manufacturing. Our lease liabilities increased from RMB10.6 million as of December 31, 2021 to RMB11.2 million as of December 31, 2022, mainly arising from interests from discount of lease liabilities of a real property in Zhuhai as our offices, manufacturing and research and development facilities. For details about the leased property in Beijing, please see "Business — Properties" in this document.

Financial Liabilities at FVTPL

Our financial liabilities at FVTPL primarily represented the preference shares we issued in Series A Financing, Series B Financing, Series B+ Financing and Series C Financing and the fair value change of financial liabilities at FVTPL is recognized in profit or loss. For more details, please see "History, Development and Corporate Structure — Our Corporate Development — Conversion into Joint Stock Limited Company and Major Shareholding Changes after the Conversion" in this document. Our financial liabilities at FVTPL decreased from RMB1,237.5 million as of December 31, 2021 to nil as of December 31, 2022 primarily due to the reclassification of the preference shares from financial liabilities to equity at their fair value given the termination of the preference rights including the liquidation preferences and anti-dilution right for the Series A Investors, Series B Investors, Series B+ Investors and Series C Investors upon the Company's submission of the [**REDACTED**] application.

For movements in our financial liabilities at FVTPL, please see Note 27 to Accountants' Report set forth in Appendix I to this document.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Our primary uses of cash relate to the research and development of our product candidates and capital expenditures. During the Track Record Period, we primarily funded our working capital requirements through capital contributions from our shareholders and private equity financing. We monitor and maintain a level of cash and cash equivalents deemed adequate to finance our business operations and mitigate the effects of fluctuations in cash flows. Our net cash used in operating activities was RMB19.2 million and RMB77.3 million in 2021 and 2022, respectively. As our business develops and expands, we expect to generate net cash from our operating activities through the sales revenue of our future commercialized products. Going forward, we believe our liquidity requirements will be satisfied by a combination of our cash and cash equivalents and net proceeds from the [**REDACTED**]. As of December 31, 2022, we had cash and cash equivalents of RMB69.0 million. In addition, RMB512.7 million was recorded as financial assets at FVTPL as of December 31, 2022, which represented highly liquid investments in wealth management products and can be used to fund our working capital when necessary. As of December 31, 2022, we did not have unutilized banking facilities.

Taking into account the financial resources available to our Group, including cash and cash equivalents, financial assets at FVTPL, future operating cash flows in respective periods, and the estimated net proceeds from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to cover at least 125% of our costs and expenses, including research and development expenses, administrative expenses, finance costs and other expenses (including any production costs), for at least the next 12 months from the date of this document. After making reasonable inquiries with the management of the Company about the working capital and future plans of the Group, and discussing with the Reporting Accountants about the Group's liquidity on hand, nothing has come to the Sole Sponsor's attention that would reasonably cause the Sole Sponsor to cast doubt on the Directors' view above.

Our cash burn rate refers to our average monthly (i) net cash used in operating activities and (ii) capital expenditures (including purchase of property, plant and equipment and purchase of right-of-use assets). Taking into consideration the higher-than-before research and development expenses after LZ901 proceeded to its Phase III clinical trial in China and its Phase I clinical trials in the U.S., and assuming an average cash burn rate going forward of approximately 1.4 times the level for the 12 months ended December 31, 2022, we estimate that our cash and cash equivalents and financial assets at FVTPL, which were redeemable on demand as of December 31, 2022, or had been redeemed as of the date of this document, will be able to maintain our financial viability for approximately 13.3 months or, if we also take into account the estimated net proceeds (based on the low-end of the indicative [**REDACTED**]) from the [**REDACTED**], for approximately 18.6 months. We will continue to monitor our working capital closely and expect to raise our next round of financing, if needed, with a minimum buffer of twelve months.

Selected Consolidated Cash Flow Statements Data

The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Operating cash flows before movements in working capital	(21,146)	(75,446)
Changes in working capital	1,981	(1,819)
Net cash flows used in operating activities	(19,165)	(77,265)
Net cash flows used in investing activities	(403,997)	(223,262)
Net cash flows from financing activities	454,991	336,978
Net increase in cash and cash equivalents	31,829	36,451
Cash and cash equivalents at beginning of the year	201	32,030
Effect of foreign exchange rate changes	–	495
Cash and cash equivalents at end of the year	**32,030**	**68,976**

Net Cash Flows Used in Operating Activities

Net cash used in operating activities in 2022 was RMB77.3 million. The difference between the loss before tax of RMB725.2 million and negative operating cash flow of RMB77.3 million was largely the result of adding back non-cash items of (i) fair value loss of financial liabilities at FVTPL of RMB551.5 million and (ii) equity-settled share-based payments of RMB111.4 million. Additional RMB1.8 million was recorded from changes in working capital, primarily including an increase in prepayments and other receivables of RMB14.4 million and an increase of advance payments received and other payables of RMB9.0 million.

Net cash used in operating activities in 2021 was RMB19.2 million. The difference between the loss before tax of RMB539.4 million and negative operating cash flow of RMB19.2 million was largely the result of adding back of non-cash items of (i) fair value loss of financial liabilities at FVTPL of RMB441.1 million and (ii) equity-settled share-based payments of RMB76.2 million. Additional RMB2.0 million was released from changes in working capital accounts, mainly including (i) an increase of deferred government grants related to research and development activities of RMB16.8 million, partially offset by (i) a decrease of advance payments received and other payables of RMB5.5 million, (ii) an increase of materials of RMB5.2 million and (iii) an increase of prepayments and other receivables of RMB4.3 million.

As a clinical-stage vaccine company, we plan to improve our net operating cash flow position in view of potential net operating cash inflows which we expect to generate after successful commercialization of our product candidates.

As our business develops, we expect to improve our negative cash flow position from our operations by generating more net cash from our operating activities, launching new products and improving our cost control and operating efficiencies.

- We plan to advance the clinical development and commercialization of our Core Product, LZ901, which is currently under phase II clinical trial in China. We expect to complete the Phase II clinical trial for LZ901 in China in the second quarter of 2023, initiate a multi-center, randomized, double-blind, placebo-controlled Phase III clinical trial comparing LZ901 against Shingrix® in the second quarter of 2023, file the BLA in the third quarter of 2024 for LZ901 to the NMPA, and commence commercialization once the BLA application is approved. LZ901 is expected to be priced at a retail price of approximately RMB500 to RMB800 an injection, with a total of two injections per treatment, which is more affordable compared to the retail price of the other commercially available herpes zoster vaccine in China, and has mild side effects. For more details, please see “Business — Our Products and Product Candidates — Our Core Product and Clinical-Stage Product Candidates — 1. LZ901 — Market Opportunities and Competition” in this document. Therefore, we expect that LZ901 will capture a large market share in the future and we will be able to improve our net operating cash flow position through sales of LZ901 in China. In addition, we initiated a Phase I clinical trial in the U.S. in February 2023. We plan to complete the Phase I clinical trial and initiate a Phase II clinical trial in the first quarter of 2024. We expect we will generate more cash from operating activities through sales of LZ901 in the U.S. after its approval and commercialization.

- We plan to advance the clinical development and commercialization of K3. Based on the interview with the CDE of the NMPA in June 2022, it confirmed that our Phase I clinical trial in China was completed in December 2019 and it has no objection for us to proceed to Phase III clinical trial in China directly. Our PRC Legal Adviser is of the view that the CDE is the competent authority to give the above confirmations. We plan to initiate a Phase III clinical trial for K3 in China in the second quarter of 2023, complete the Phase III clinical trial in the second quarter of 2024 and submit a BLA to the NMPA in the fourth quarter of 2024. We expect K3 to receive BLA approval from the NMPA in 2025 and commence commercialization of K3 thereafter. We believe we will be able to improve our net operating cash flow position through sales of K3.

- We will also advance the research and development, clinical trials and commercialization of other product candidates in our pipeline. We are currently conducting phase I clinical trial for K193 and pre-clinical studies for Recombinant Varicella Vaccine, Recombinant Rabies Vaccine, K333 and K1932 in China. After these product candidates are approved, we expect we will generate more cash from operating activities through sales of these product candidates.

- We plan to adopt comprehensive measures to effectively control our cost and operating expenses leveraging our economies of scale. Our object is to optimize liquidity to gain a better return for our Shareholders and maintain adequate risk control. After our product candidates are commercialized, we plan to closely monitor and manage the settlement of our trade receivables to avoid credit losses. We will also closely monitor the settlement of our trade payables to achieve better cash flow position.

Net Cash Flows Used in Investing Activities

Our net cash used in investing activities was RMB223.3 million in 2022, which is the net effect of purchase of financial assets at FVTPL of RMB1,521.1 million, purchase of property, plant and equipment of RMB208.2 million and payments for right-of-use assets of RMB45.3 million, partially offset by proceeds from disposal of financial assets at FVTPL of RMB1,554.6 million.

Our net cash used in investing activities was RMB404.0 million in 2021, which is the net effect of purchase of financial assets at FVTPL of RMB1,243.5 million, partially offset by proceeds from disposal of financial assets at FVTPL of RMB900.3 million.

Net Cash Flows From Financing Activities

Our net cash from financing activities was RMB337.0 million in 2022, primarily as a result of issuance of financial liabilities at FVTPL in Series B+ Financing of RMB120.0 million and issuance of financial liabilities at FVTPL in Series C Financing of RMB218.0 million.

Our net cash from financing activities was RMB455.0 million in 2021, primarily as a result of issuance of financial liabilities at FVTPL in Series A Financing of RMB100.0 million and issuance of financial liabilities at FVTPL in Series B Financing of RMB350.0 million.

CASH OPERATING COSTS

The following table sets forth key information relating to our cash operating costs for the periods indicated:

	Year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
R&D costs		
R&D costs for our Core Product		
– Staff costs	2,199	6,859
– Third-party contracting costs	2,032	18,436
– Costs of raw materials	416	6,643
– Others	78	2,634
R&D costs for our other product candidates		
– Staff costs	3,527	4,776
– Third-party contracting costs	3,391	2,558
– Costs of raw materials	852	1,298
– Others	82	407
Workforce employment costs[(1)]	3,143	9,164
Direct production costs[(2)]	–	–
Commercialization[(2)]	–	–
Contingency allowance	–	–
Total	**15,720**	**52,775**

Notes:

(1) Workforce employment cost represents staff costs of non-research and development staff including salaries, bonus and retirement benefits.

(2) We had not commenced product sales as of the Latest Practicable Date.

INDEBTEDNESS

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

	As of December 31,		As of February 28,
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)
Financial liabilities at FVTPL	1,237,517	–	–
Lease liabilities			
– current	–	–	–
– non-current	10,580	11,219	11,326
Total	**1,248,097**	**11,219**	**11,326**

Financial Liabilities at FVTPL

We issued preference issues in our Series A Financing, Series B Financing, Series B+ Financing and Series C Financing, which were designated as at financial liabilities at FVTPL on initial recognition. For more details, please see "— Discussion of Certain Selected Items from the Consolidated Statements of Financial Position — Financial Liabilities at FVTPL" in this section. In June 2022, our obligations with respect to special rights granted to [**REDACTED**] Investors, other than information rights, were terminated, and we do not expect to recognize any loss or gain on fair value change of preference shares thereafter.

Our Directors confirm that there have been no material defaults in our payment of trade or non-trade payables and bank borrowings, or breaches of covenants of our indebtedness during the Track Record Period and up to the date of this document.

We did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of February 28, 2023.

Since February 28, 2023 and up to the Latest Practicable Date, there had not been any material adverse change to our indebtedness.

CAPITAL EXPENDITURE

We regularly incur capital expenditures to expand and enhance our research and development facilities, establish our manufacturing capacities and increase our operating efficiency. Our capital expenditures primarily consisted of expenditures on leasehold improvement, machinery, construction in progress, leasehold lands and properties during the Track Record Period. Historically, we funded our capital expenditures mainly through capital contributions by our shareholders and equity financing. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Purchase of property, plant and equipment	59,919	208,205
Purchase of right-of-use assets	18,585	45,316
Total	**78,504**	**253,521**

We expect to incur capital expenditures primarily to develop our facilities in Zhuhai and Beijing, and purchase of R&D machinery as well as purchase of equipment and machinery. We plan to finance such expenditures primarily with our existing cash and cash equivalents, net proceeds from the [**REDACTED**], and bank borrowings if necessary. We may adjust our capital expenditures for any given period according to our development plans or in light of market conditions and other factors we believe to be appropriate.

CAPITAL COMMITMENTS

We had the following capital commitment as of the dates indicated:

	As of December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Contracted for but not provided in the Historical Financial Information	25,107	13,498

CONTINGENT LIABILITIES

As of December 31, 2021 and 2022, we did not have any contingent liabilities. As of the Latest Practicable Date, there had been no material changes or arrangements to our contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Aside from our capital commitments of RMB13.5 million as disclosed above, we had not entered into any off-balance sheet transactions as of the Latest Practicable Date.

KEY FINANCIAL RATIO

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

	As of December 31,	
	2021	**2022**
Current ratio[1]	24.5	6.4
Quick ratio[2]	24.5	6.4

Notes:

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

(2) Quick ratio represents current assets less inventories and divided by current liabilities as at the same date.

Our current ratio decreased from 24.5 as of December 31, 2021 to 6.4 as of December 31, 2022, mainly as a result of an increase of advance payments received and other payables of RMB69.9 million.

Our quick ratio was 24.5, and 6.4 as of December 31, 2021 and 2022, respectively, which was mainly in line with the movement of current asset ratio as discussed above.

RELATED PARTY TRANSACTIONS

For details about our related party transactions during the Track Record Period, please see Note 36 of Appendix I to this document and "Business — Our Core Product and Clinical-Stage Product Candidates — 2. K3 — License, Rights and Obligation" in this document.

Our Directors believe that our transactions with the related party during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

RISK DISCLOSURE

We are exposed to a variety of financial risks, including market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. For more details, please see Note 32 to Accountants' Report set forth in Appendix I to this document.

Market Risk

Foreign Currency Risk

Our Group were primarily subject to foreign currency risk from the movement of the exchange rates between RMB against US$. For more details, please see Note 32(i) to the Accountants' Report set forth in Appendix I to this document. At the end of each reporting period, if the exchange rate of RMB had been weaken against US$ by 5% and all other variables were held constant, our Group's post-tax loss for each reporting period would increase as follow:

	Year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Increase in post-tax loss	52	228

Interest Risk

Our Group's fair value interest rate risk relates primarily to fixed-rate lease liabilities. Our Group are also exposed to cash flow interest risk in relation to variable-rate bank balances, which carry prevailing market interests. Our Group currently does not have a specified policy to manage our interest rate risk but will closely monitor our interest rate risk exposure in the future. For more details, please see Note 32(ii) to Accountants' Report set forth in Appendix I to this document.

Other Price Risk

Our group is exposed to equity price risk through our Preference Shares measured at FVTPL and investments in financial products measured at FVTPL. For more details, please see Note 32(iii) to Accountants' Report set forth in Appendix I to this document.

Credit Risk

Our Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position (including bank balances, financial assets at FVTPL and deposits and other receivables). Our Group does not hold any collaterals or other credit enhancement to cover its credit risks associated with its financial assets.

In order to minimize the credit risk, our Group monitors the exposure to credit risk on an on-going basis. Except for financial assets at FVTPL, our Group performed impairment assessment for each individual debt under ECL model at the end of each reporting period. For more details, please see Note 32 to Accountants' Report set forth in Appendix I to this document.

Liquidity Risk

We monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance the operations and mitigate the effects of fluctuations in cash flows. For more details, please see Note 32 to Accountants' Report set forth in Appendix I to this document.

DIVIDEND

No dividend have been declared or paid by our Group during the Track Record Period. We currently expect to retain all future earnings for use in operation and expansion of our business, and currently do not have any dividend policy to declare or pay any dividends in the foreseeable future. The declaration and payment of any dividends in the future will be determined by our board of directors and subject to our Articles of Association and the PRC Company Law, and will depend on a number of factors, including the successful commercialization of our products as well as our earnings, capital requirements, overall financial condition and contractual restrictions. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. As confirmed by our PRC Legal Adviser, according to the PRC law, any future net profit that we make will have to be first applied to make up for our historically accumulated losses, after which we will be obliged to allocate 10% of our net profit to our statutory common reserve fund until such fund has reached more than 50% of our registered capital. We will therefore only be able to declare dividends after (i) all our historically accumulated losses have been made up for; and (ii) we have allocated sufficient net profit to our statutory common reserve fund as described above.

DISTRIBUTABLE RESERVES

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

[REDACTED] EXPENSE

[**REDACTED**] expenses to be borne by us are estimated to be approximately RMB[**REDACTED**] (HK$[**REDACTED**]), or [**REDACTED**]% of the gross proceeds estimated to be received by us from the [**REDACTED**] (at the [**REDACTED**] of HK$[**REDACTED**] per Share, being the mid-point of the indicative [**REDACTED**] range, and assuming the [**REDACTED**] is not exercised). [**REDACTED**] expenses to be borne by us include (i) [**REDACTED**]-related expenses, including [**REDACTED**], of RMB[**REDACTED**] (HK$[**REDACTED**]); (ii) fees and expenses of legal advisors and Reporting Accountants of RMB[**REDACTED**] (HK$[**REDACTED**]); and (iii) other fees and expenses, including sponsor fees, of RMB[**REDACTED**] (HK$[**REDACTED**]). As of December 31, 2022, we incurred a total of RMB[**REDACTED**] (HK$[**REDACTED**]) in [**REDACTED**] expenses, among which RMB[**REDACTED**] was recognized in our consolidated statement of profit or loss and other comprehensive income, and RMB[**REDACTED**] was directly attributable to the issue of our [**REDACTED**] to the [**REDACTED**] and will be deducted from equity upon the [**REDACTED**].

We estimate that additional [**REDACTED**] expenses of approximately RMB[**REDACTED**] (HK$[**REDACTED**]) (including [**REDACTED**] of approximately RMB[**REDACTED**] (HK$[**REDACTED**]), assuming the [**REDACTED**] is not exercised and based on the [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of the indicative [**REDACTED**] range) will be incurred by our Company, approximately RMB[**REDACTED**] (HK$[**REDACTED**]) of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB[**REDACTED**] (HK$[**REDACTED**]) of which is directly attributable to the issue of our shares to the public and will be deducted from equity upon the [**REDACTED**]. The [**REDACTED**] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. The exchange rate used in translations between Hong Kong dollars and Renminbi above, including such [**REDACTED**] expenses incurred as of December 31, 2022, is set forth in "Information about This Document and the [**REDACTED**] — Exchange Rate Conversion".

PROPERTY VALUATION

Our selective property interests are set forth in the Property Valuation Report in Appendix III to this document. Savills Valuation and Professional Services (China) Limited, an independent property valuer, has valued our selective property interests as of February 28, 2023.

A reconciliation of the market value of our selective property interests as extracted from the Property Valuation Report as set out in Appendix III to this document as of February 28, 2023 and net book value of our selective property interests in our consolidated financial statements as of December 31, 2022 as required under Rule 5.07 of the Listing Rules is set forth below:

	RMB'000
Net book value of our selective property interests as of December 31, 2022	170,195
Movements during the two months ended February 28, 2023	12,210
Net book value of our selective property interests as of February 28, 2023	182,405
Valuation surplus	14,395
Valuation as of February 28, 2023 as set out in the Property Valuation Report in Appendix III to this document	196,800

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited [**REDACTED**] adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the [**REDACTED**] on the consolidated net tangible assets of the Group attributable to owners of the parent as if the [**REDACTED**] had taken place on December 31, 2022.

The unaudited [**REDACTED**] statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group to owners of the parent had the [**REDACTED**] been completed as at December 31, 2022 or at any future dates.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2022	Estimated net proceeds from the [REDACTED]	Unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2022	Unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2022 per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[934,029]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[934,029]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2022 is based on the consolidated net assets of the Group amounted to RMB937,466,000, with adjustments for intangible assets of the Group as at December 31, 2022 of RMB3,437,000 extracted from the Accountants' Report set forth in Appendix I to the document.

2. The estimated net proceeds from the [**REDACTED**] are based on [**REDACTED**] new Shares to be issued at the [**REDACTED**] of HK$[**REDACTED**] and HK$[**REDACTED**] per [**REDACTED**], being the low end and high end of the indicated [**REDACTED**] range respectively, after deduction of the estimated [**REDACTED**] fees and other related expenses incurred or expected to be incurred by the Group, other than those expenses which had been recognized in profit or loss prior to December 31, 2022. The calculation of such estimated net proceeds does not take into account (i) any Shares which may be allotted and issued upon the exercise of the [**REDACTED**] or (ii) any Shares which may be issued or repurchased by the Company pursuant to the general mandates.

   For the purpose of the estimated net proceeds from the [**REDACTED**], the amount denominated in HK$ has been converted into RMB at an exchange rate of HK$1 to RMB0.87599, which was the exchange rate prevailing on April 10, 2023 with reference to the rate published by the People's Bank of China. No representation is made that HK$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or at any other rates or at all.

3. The number of shares used for the calculation of unaudited [**REDACTED**] adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is based on [**REDACTED**] Shares outstanding immediately following completion of the [**REDACTED**]. It does not take into account (i) any Shares which may be allotted and issued upon the exercise of the [**REDACTED**] or (ii) any Shares which may be issued or repurchased by the Company pursuant to the general mandates.

4. The unaudited [**REDACTED**] adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB to HK$ at the rate of HK$1 to RMB0.87599, which was the exchange rate prevailing on April 10, 2023 with reference to the rate published by the People's Bank of China. No representation is made that the RMB amounts have been, would have been or may be converted to HK$, or vice versa, at that rate or at any other rates or at all.

5. No adjustment has been made to the unaudited [**REDACTED**] adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2022 to reflect any operating result or other transactions of the Group entered into subsequent to December 31, 2022.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, other than as disclosed under "Recent Developments and No Material Adverse Change" in the "Summary" section in this document, there had been no material adverse change in our business, financial condition and results of operations since December 31, 2022, being the latest balance sheet date of our consolidated financial statements in the Accountants' Report set out in Appendix I to this document, and up to the date of this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

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