The following is the text of a report set out on pages I-1 to [I-65], received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BEIJING LUZHU BIOTECHNOLOGY CO., LTD. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of Beijing Luzhu Biotechnology Co., Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages [I-3] to [I-65], which comprises the consolidated statements of financial position of the Group as at December 31, 2021 and 2022, the statements of financial position of the Company as at December 31, 2021 and 2022, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the two years ended December 31, 2022 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages [I-3] to [I-65] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [[●] 2023] (the "**document**") in connection with the initial [**REDACTED**] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Directors' responsibility for the Historical Financial Information

The directors of the Company (the "**Directors**") are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 3.1 to the Historical Financial Information, and for such internal control as the Directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 3.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2021 and 2022, of the Company's financial position as at December 31, 2021 and 2022 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 3.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page [I-3] have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which states that no dividend has been declared or paid by the Company and its subsidiaries in respect of the Track Record Period.

[**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong
[●] 2023]

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("**IFRSs**") issued by International Accounting Standards Board (the "**IASB**") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	For the year ended December 31, 2021	2022
		RMB'000	RMB'000
Other income	6	6,896	13,923
Other gains and losses, net	8	10,794	15,100
Fair value loss of financial liabilities at fair value through profit or loss ("**FVTPL**")	27	(441,077)	(551,546)
Administrative expenses		(60,217)	(85,830)
Research and development expenses		(42,983)	(91,426)
Finance costs	9	(603)	(722)
[**REDACTED**]		[**REDACTED**]	[**REDACTED**]
Other expenses	7	(9,041)	(3,137)
Loss before tax		(539,357)	(725,180)
Income tax expense	10	–	–
Loss and total comprehensive expense for the year	11	(539,357)	(725,180)
Loss per share (RMB)	15		
Basic		(5.94)	(4.98)
Diluted		(5.94)	(4.98)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at December 31,	
	NOTES	2021	2022
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*16*	76,029	229,627
Right-of-use assets	*17*	66,180	62,462
Investment property	*18*	–	–
Intangible assets	*19*	–	3,437
Prepayments, deposits and other receivables	*21*	9,393	173,640
		151,602	469,166
CURRENT ASSETS			
Materials	*20*	5,323	2,535
Prepayments, deposits and other receivables	*21*	4,575	16,829
Financial assets at FVTPL	*22*	532,365	512,664
Bank balances and cash	*23*	32,030	68,976
		574,293	601,004
CURRENT LIABILITIES			
Advance payments received and other payables	*24*	14,785	84,714
Contract liability		237	–
Deferred government grants	*26*	8,400	9,400
		23,422	94,114
NET CURRENT ASSETS		550,871	506,890
TOTAL ASSETS LESS CURRENT LIABILITIES		702,473	976,056
NON-CURRENT LIABILITIES			
Lease liabilities	*25*	10,580	11,219
Deferred government grants	*26*	38,901	27,371
Financial liabilities at FVTPL	*27*	1,237,517	–
		1,286,998	38,590
NET (LIABILITIES) ASSETS		(584,525)	937,466
CAPITAL AND RESERVES			
Share capital	*28*	90,888	192,064
Reserves		(675,413)	745,402
TOTAL (DEFICITS) EQUITY		(584,525)	937,466

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at December 31,	
	NOTES	**2021**	**2022**
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*16*	8,921	9,948
Right-of-use assets	*17*	18,688	18,118
Investment property	*18*	–	–
Intangible assets	*19*	–	3,437
Investments in subsidiaries	*37*	101,343	384,050
Prepayments, deposits and other receivables	*21*	3,869	20,936
		132,821	436,489
CURRENT ASSETS			
Materials	*20*	598	462
Prepayments, deposits and other receivables	*21*	4,384	16,233
Financial assets at FVTPL	*22*	494,768	492,962
Bank balances and cash	*23*	32,024	59,001
		531,774	568,658
CURRENT LIABILITIES			
Advance payments received and other payables	*24*	4,788	17,549
Contract liability		237	–
		5,025	17,549
NET CURRENT ASSETS		526,749	551,109
TOTAL ASSETS LESS CURRENT LIABILITIES		659,570	987,598
NON-CURRENT LIABILITIES			
Deferred government grants		23	14
Financial liabilities at FVTPL	*27*	1,237,517	–
		1,237,540	14
NET (LIABILITIES) ASSETS		(577,970)	987,584
CAPITAL AND RESERVES			
Share capital	*28*	90,888	192,064
Reserves	*29*	(668,858)	795,520
TOTAL (DEFICITS) EQUITY		(577,970)	987,584

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Share-based payments reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000* *(Note 31)*	*RMB'000*	*RMB'000*
At January 1, 2021	78,580	39,462	4,194	(255,950)	(133,714)
Loss and total comprehensive expense for the year	–	–	–	(539,357)	(539,357)
Recognition of equity-settled share-based payments	–	–	76,238	–	76,238
Exercise of share options and vesting of shares granted	–	34,752	(34,752)	–	–
Issue of shares *(Note 28)*	12,308	–	–	–	12,308
At December 31, 2021	90,888	74,214	45,680	(795,307)	(584,525)
Loss and total comprehensive expense for the year	–	–	–	(725,180)	(725,180)
Recognition of equity-settled share-based payments	–	–	111,413	–	111,413
Exercise of Directors Options *(as defined and detailed in Note 31(d))*	8,695	90,907	(90,907)	–	8,695
Reclassification from financial liabilities at FVTPL *(Note 27)*	92,481	2,034,582	–	–	2,127,063
At December 31, 2022	192,064	2,199,703	66,186	(1,520,487)	937,466

CONSOLIDATED STATEMENTS OF CASH FLOWS

		For the year ended December 31,	
	NOTES	**2021**	**2022**
		RMB'000	*RMB'000*
OPERATING ACTIVITIES			
Loss before tax		(539,357)	(725,180)
Adjustment for:			
Fair value gains on financial assets at FVTPL	*8*	(10,804)	(13,868)
Foreign exchange gain		–	(495)
Depreciation of property, plant and equipment	*11*	2,389	5,286
Depreciation of investment property	*11*	436	–
Depreciation of right-of-use assets	*11*	3,717	4,463
Amortization of intangible assets	*11*	–	135
Loss on disposal of property, plant and equipment	*8*	11	3
Interest income	*6*	(41)	(249)
Gain on early termination of a lease	*8*	–	(239)
Finance costs	*9*	603	722
Fair value loss of financial liabilities at FVTPL	*27*	441,077	551,546
Issue costs for financial liabilities at FVTPL	*7*	6,194	2,547
Release of deferred government grants	*6*	(1,609)	(11,530)
Recognition of equity-settled share-based payments	*11*	76,238	111,413
Operating cash flows before movements in working capital		(21,146)	(75,446)
(Increase) decrease in materials		(5,242)	2,788
Increase in prepayments and other receivables		(4,284)	(14,376)
(Decrease) increase in advance payments received and other payables		(5,530)	9,006
Increase (decrease) in contract liability		237	(237)
Increase in deferred government grants related to research and development activities		16,800	1,000
NET CASH USED IN OPERATING ACTIVITIES		(19,165)	(77,265)

	NOTES	For the year ended December 31, 2021 *RMB'000*	2022 *RMB'000*
INVESTING ACTIVITIES			
Interest received		25	223
Purchase of property, plant and equipment		(59,919)	(208,205)
Payments for right-of-use assets		(18,585)	(45,316)
Payments for rental deposits		(279)	(279)
Refund of rental deposits		–	318
Purchase of financial assets at FVTPL		(1,243,494)	(1,521,060)
Proceeds from disposal of financial assets at FVTPL		900,255	1,554,629
Government grants received related to plant and machinery	*26*	18,000	–
Payments for intangible assets	*19*	–	(3,572)
NET CASH USED IN INVESTING ACTIVITIES		(403,997)	(223,262)
FINANCING ACTIVITIES			
Payments of share issue costs for [**REDACTED**] ("[**REDACTED**]")		(1,123)	(6,589)
Proceeds from issue of ordinary shares	*28*	12,308	8,695
Proceeds from issue of financial liabilities at FVTPL	*27*	450,000	338,000
Payments of issue costs for financial liabilities at FVTPL	*7*	(6,194)	(2,547)
Interest paid		–	(63)
Repayment of lease liabilities		–	(518)
NET CASH FROM FINANCING ACTIVITIES		454,991	336,978
NET INCREASE IN CASH AND CASH EQUIVALENTS		31,829	36,451
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		201	32,030
Effect of foreign exchange rate changes		–	495
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	*23*	32,030	68,976

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was established as a limited liability company in Beijing, the People's Republic of China (the "**PRC**") on November 9, 2001. The Company was converted into a joint stock company with limited liability under the Company Law of the PRC on July 19, 2013. The address of the registered office and the principal place of business of the Company is No.3 Guangtong Street, Zhangjiawan, Tongzhou District, Beijing, PRC. The controlling shareholders of the Company are Mr. Kong Jian and his spouse, namely Ms. Zhang Yanping through their direct or indirect interests held in the Company.

The Company and its subsidiaries are principally engaged in research, development and production of vaccines and therapeutic biologics in the PRC.

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company and its subsidiaries.

The statutory financial statements of the Company for the year ended December 31, 2021 were prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and were audited by Beijing Dongshen Dingli International Accounting Firm Co., Ltd. * (北京東審鼎立國際會計師事務所有限責任公司). The audited statutory financial statements of the Company for the year ended December 31, 2022 are not yet due to be issued.

* *English name is for identification purpose only.*

2. APPLICATION OF IFRSs

For the purpose of preparing the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with IFRSs, which are effective for the accounting period beginning on January 1, 2022, throughout the Track Record Period.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after January 1, 2023.
[2] Effective for annual periods beginning on or after a date to be determined.
[3] Effective for annual periods beginning on or after January 1, 2024.

The Directors anticipate that the application of the above new and amendments to IFRSs will have no material impact on the Group's financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of Historical Financial Information

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs issued by the IASB. For the purpose of preparation of the Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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, as explained in the accounting policies set out below.

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, the Group 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 accounted for in accordance with 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.

3.2 Significant accounting policies

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in subsidiaries

The investments in subsidiaries are stated at cost less accumulated impairment loss.

Revenue from contracts with customers

The Group 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 the customer.

A performance obligation represents a good or 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 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 the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the 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 the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Revenue from contracts with customers which is not derived from the Group's ordinary course of business is presented as other income.

Leases

Definition of a lease

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

The Group as lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of properties and office equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statements of financial position.

Lease modifications

For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease and making a corresponding adjustment to the right-of-use asset for all other lease modifications. The Group recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred government grants in the Historical Financial Information and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Employee benefits

Retirement benefit costs

Payments to state-managed retirement benefit scheme are recognized as an expense when employees have rendered services entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Share-based payments

Equity-settled share-based payment transactions

Shares/share options granted to employees

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 the 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, the Group revises its 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-based payments 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-based payments 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.

Modification to the terms and conditions of the share-based payment arrangements

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 payment 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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognized at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognized on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss.

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 the 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 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.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

If an investment property becomes owner-occupied as evidenced by commencement of owner-occupation, the cost of the relevant investment property and the related accumulated depreciation and impairment loss (if any) are transferred to property, plant and equipment.

Intangible assets

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.

Impairment on property, plant and equipment, intangible assets and right-of-use assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, intangible assets with finite useful lives and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, intangible assets and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash- generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents consist of:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Materials

Materials are mainly reagent and consumable materials for research and development purposes. Materials are stated at the lower of cost and recoverable amount, and expensed as they are consumed.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets of the Group are subsequently measured at fair value.

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Interest income is recognized in profit or loss and included in the "other income" line item.

Financial assets at FVTPL

The Group's 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.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("**ECL**") on financial assets (including bank balances, deposits and other receivables) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For all financial assets, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of other receivables where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of consideration received and receivable is recognized in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The liability/equity classification made at initial recognition is reconsidered if there are changes to the contractual terms of the instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial instruments issued by the Group, which include no contractual obligation for the Group to deliver cash or other financial assets are classified as equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

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.

Financial liabilities at amortized cost

Financial liabilities including other payables are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the 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 on-going 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.

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the Historical Financial Information.

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 use or sell the asset, how the asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the pipeline, the Group's ability to use or sell the asset 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 assess the progress of each of the research and development projects and determine whether the criteria are met for capitalization. During the Track Record Period, all development costs are expensed when incurred.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the coming twelve months.

Fair value measurement of financial liabilities at FVTPL

No quoted prices in an active market are available for the Group's financial liabilities at FVTPL. These financial liabilities were valued by the Directors with the assistance of an independent qualified professional valuer not connected to the Group, which has appropriate qualifications and experience in valuation of similar financial instruments. The fair value of these financial liabilities is established by using valuation techniques as disclosed in Notes 27 and 33. Valuation techniques are certified by the 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 the Group's specific data. However, it should be noted that some inputs, such as possibilities under different scenarios such as [**REDACTED**], liquidation and redemption, require management estimates. The estimates and assumptions are reviewed periodically by the Directors and adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of financial liabilities at FVTPL. The fair value of financial liabilities at FVTPL at December 31, 2021 was RMB1,237,517,000.

5. SEGMENT INFORMATION

For the purposes of resources allocation and performance assessment, the executive directors of the Company, being the chief operating decision makers, review the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one operating and reportable segment and no further analysis of this single segment is presented.

The Group did not record any revenue during the Track Record Period. As at December 31, 2021 and 2022, the Group's non-current assets excluding financial instruments amounted to RMB151,307,000 and RMB468,853,000 respectively are all located in Mainland China, accordingly, no analysis of geographical information is presented.

6. OTHER INCOME

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Rental income from investment property	2,350	–
Income from sales of testing kits *(Note)*	2,616	2,056
Government grants related to		
– Right-of-use assets and plant and machinery *(Note 26)*	1,609	3,130
– Research and development activities *(Note 26)*	–	8,400
– Others	280	88
Interest income on bank balances	25	223
Interest income from rental deposits	16	26
Total	6,896	13,923

Note: An analysis of the Group's income from sales of testing kits is as follows:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Type of goods		
Testing Kits	2,616	2,056
Timing of recognition		
At a point in time	2,616	2,056

During the Track Record Period, the Group sells testing kits to pharmaceutical companies. Sale of testing kits is not considered the principal business of the Group. For sales of testing kits to its customer, income is recognized when customer obtains control of the goods, being at the point the goods are delivered to the customer. The Group usually requires 100% upfront payments from its customers and occasionally allows a credit period of 30 days to its customers. The transaction price received by the Group is recognized as contract liability until the testing kits are delivered to the customer.

Sales of testing kits are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

During the Track Record Period, income from sales of testing kits of the corresponding years contributing over 10% of such income of the Group are as follows:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Customer A	1,416	–
Customer B	409	853
Customer C	382	N/A*
Customer D	281	359
Customer E	N/A*	351

* The corresponding income did not contribute over 10% of total income from sales of testing kits of the Group for the relevant year.

7. OTHER EXPENSES

	For the 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 financial liabilities at FVTPL	6,194	2,547
Others	1,250	–
Total	9,041	3,137

8. OTHER GAINS AND LOSSES, NET

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

9. FINANCE COSTS

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Interest on lease liabilities	603	722

10. INCOME TAX EXPENSE AND DEFERRED TAXATION

Income tax expense

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

The Company 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 for a term of three years to October 31, 2021. 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. The Company was qualified as high and new technology enterprise from October 31, 2018 to October 31, 2021 and the unutilized tax losses of the Company incurred between year 2013 and year 2020 will be expired in 10 years from the year of loss.

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

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

Income tax expense for the Track Record Period can be reconciled to loss before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Loss before tax	(539,357)	(725,180)
Tax at the statutory tax rate of 25%	(134,839)	(181,295)
Tax effect of expenses not deductible for tax purpose	120,918	152,320
Tax effect of income not taxable for tax purpose	–	(333)
Tax effect of super deduction for research and development expenses (Note)	(1,585)	(4,179)
Tax effect of deductible temporary differences not recognized	9,195	13,532
Tax effect of tax losses not recognized	6,311	19,955
	–	–

Note: Pursuant to Cai Shui 2018 No. 99 and Cai Shui 2021 No. 6, the Company and Luzhu Biopharmaceuticals (Zhuhai) Co., Ltd. * (綠竹生物製藥（珠海市）有限公司) ("**Zhuhai Luzhu**") are entitled to claim 175% qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits from January 1, 2018 to December 31, 2023.

* *English name is for identification purpose only.*

Deferred taxation

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at December 31,	
	2021	2022
	RMB'000	*RMB'000*
Deferred tax assets	5,558	4,980
Deferred tax liabilities	(5,558)	(4,980)
	–	–

The followings are the deferred tax liabilities and assets recognized and movements thereon during the Track Record Period:

	Tax losses	Revaluation of property, plant and equipment and leasehold lands	Fair value gains on financial assets at FVTPL	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2021	5,039	(4,805)	(234)	–
Credit (charge) to profit or loss	519	331	(850)	–
At December 31, 2021	5,558	(4,474)	(1,084)	–
(Charge) credit to profit or loss	(578)	331	247	–
At December 31, 2022	4,980	(4,143)	(837)	–

As at December 31, 2021 and 2022, the Group had estimated unused tax losses of approximately RMB93,001,000 and RMB170,512,000, respectively, which are available for offset against future profits. Deferred tax asset has been recognized in respect of approximately RMB22,232,000 and RMB19,922,000 of such losses as at December 31, 2021 and 2022. No deferred tax asset has been recognized in respect of the remaining approximately RMB70,769,000 and RMB150,590,000 due to the unpredictability of future profit streams as at December 31, 2021 and 2022.

The unrecognized tax losses with expiry dates are disclosed in the following table:

	As at December 31,	
	2021	2022
	RMB'000	*RMB'000*
2024	7	12
2025	356	356
2026	9,534	11,838
2027	3,008	80,520
2028	37,862	37,862
2029	8,740	8,740
2030	11,262	11,262
Total	70,769	150,590

As at December 31, 2021 and 2022, the Group has deductible temporary differences of RMB36,781,000 and RMB90,907,000 in relation to the share-based payments expenses of the Directors Options. No deferred tax asset has been recognized in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

11. LOSS FOR THE YEAR

	For the year ended December 31,	
	2021	2022
	RMB'000	*RMB'000*
Loss for the year has been arrived at after charging:		
Staff costs, including directors' and supervisors' remuneration		
– salaries and other allowances	10,968	21,037
– retirement benefits	733	1,625
– equity-settled share-based payments included in administrative expenses	49,437	68,925
– equity-settled share-based payments included in research and development expenses	26,801	42,488
Total staff costs	87,939	134,075
Auditor's remuneration	19	27
[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
Depreciation of property, plant and equipment	2,389	5,286
Depreciation of right-of-use assets	3,717	4,463
Depreciation of investment property	436	–
Amortization of intangible assets	–	135
Total depreciation and amortization	6,542	9,884
Short-term lease expense	17	124
Cost of materials included in research and development expenses	1,334	7,941
Sub-contracting costs included in research and development expenses	5,395	17,849

12. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to the directors, chief executive and supervisors of the Company during the Track Record Period are as follows:

Year ended December 31, 2021

	Salaries and other allowances	**Discretionary bonuses**	**Retirement benefits**	**Equity-settled share-based payments expense**	**Total**
	RMB'000	*RMB'000* *(Note h)*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Kong Jian *(Note a)*	304	200	33	26,205	26,742
Ms. Jiang Xianmin *(Note b)*	292	200	–	12,262	12,754
Ms. Zhang Yanping *(Note c)*	292	160	–	6,346	6,798
Sub-total	888	560	33	44,813	46,294
Non-executive directors:					
Mr. Ma Biao *(Note d)*	–	–	–	–	–
Mr. Kong Shuangquan *(Note e)*	–	–	–	–	–
Mr. Lin Lei *(Note f)*	–	–	–	–	–
Sub-total	–	–	–	–	–
Supervisors:					
Ms. Peng Ling *(Note g)*	250	143	30	456	879
Ms. Kong Xi *(Note g)*	139	63	20	228	450
Sub-total	389	206	50	684	1,329
Total	1,277	766	83	45,497	47,623

Year ended December 31, 2022

	Salaries and other allowances	Discretionary bonuses	Retirement benefits	Equity-settled share-based payments expense	Total
	RMB'000	*RMB'000* *(Note h)*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Kong Jian *(Note a)*	485	82	43	39,282	39,892
Ms. Jiang Xianmin *(Note b)*	430	190	–	6,935	7,555
Ms. Zhang Yanping *(Note c)*	430	95	–	30,665	31,190
Sub-total	1,345	367	43	76,882	78,637
Non-executive directors:					
Mr. Ma Biao *(Note d)*	–	–	–	–	–
Mr. Kong Shuangquan *(Note e)*	–	–	–	–	–
Mr. Lin Lei *(Note f)*	–	–	–	–	–
Sub-total	–	–	–	–	–
Supervisors:					
Ms. Peng Ling *(Note g)*	365	72	37	4,804	5,278
Ms. Kong Xi *(Note g)*	174	40	23	177	414
Mr. Chen Liang *(Note g)*	156	13	21	779	969
Sub-total	695	125	81	5,760	6,661
Total	2,040	492	124	82,642	85,298

Notes:

a. Mr. Kong Jian joined the Group in July 2002 as general manager. He was appointed as a director on September 11, 2008, and was re-designated as an executive director on June 18, 2022. Mr. Kong Jian is also the chief executive of the Company.

b. Ms. Jiang Xianmin joined the Group in February 2002 as deputy general manager. She was appointed as a director on June 28, 2013, and was re-designated as an executive director on June 18, 2022.

c. Ms. Zhang Yanping joined the Group in January 2004 as a manager of the research and development department, and is currently the deputy general manager. She was appointed as a director on June 28, 2013 and was re-designated as an executive director on June 18, 2022.

d. Mr. Ma Biao was appointed as a director on August 2, 2019, and was re-designated as a non-executive director on June 18, 2022.

e. Mr. Kong Shuangquan was appointed as a director on August 2, 2019, and was re-designated as a non-executive director on June 18, 2022.

f. Mr. Lin Lei was appointed as a director on September 10, 2021, and resigned from his position of a director with effect from May 28, 2022.

g. Ms. Peng Ling joined the Group in April 2015 and she was appointed as a supervisor on July 19, 2019. Ms. Kong Xi joined the Group in July 2013 and she was appointed as a supervisor on July 21, 2014. Mr. Chen Liang joined the Group in August 2021 and he was appointed as a supervisor on April 26, 2022.

h. Discretionary bonuses are determined based on the Group's performance, performance of the relevant individual within the Group and comparable market statistics.

No independent non-executive director was appointed during the Track Record Period. Mr. Leung Wai Yip, Mr. Liang Yeshi and Ms. Hou Aijun were appointed as independent non-executive directors on March 30, 2023.

During the Track Record Period, certain directors and supervisors were granted shares or share options, in respect of their services to the Group, details are set out in Note 31 to the Historical Financial Information.

There were no arrangement under which a director, a supervisor of the Company or the chief executive waived or agreed to waive any remuneration during the Track Record Period.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included three and four directors or supervisors for the years ended December 31, 2021 and 2022, respectively, details of whose remuneration are set out in Note 12 above. Details of the remuneration for the remaining two and one employees who are not a director, a supervisor or chief executive of the Company for the Track Record Period were as follows:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Salaries and other allowances	822	1,727
Discretionary bonuses	280	154
Retirement benefits	33	55
Equity-settled share-based payments expense	19,674	1,779
Total	20,809	3,715

The number of the highest paid employees who are not the directors or supervisors whose remuneration fell within the following bands is as follows:

	For the year ended December 31,	
	2021	**2022**
	No. of employees	*No. of employees*
HK$2,000,001 to HK$2,500,000	1	–
HK$4,000,001 to HK$4,500,000	–	1
HK$22,500,001 to HK$23,000,000	1	–
Total	2	1

During the Track Record Period, no emoluments were paid by the Group to the directors, supervisors or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

No dividend was paid or declared by the Company and its subsidiaries during the Track Record Period.

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Loss		
Loss for the year attributable to owners of the Company	(539,357)	(725,180)

	For the year ended December 31,	
	2021	**2022**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	90,725	145,512

The number of ordinary shares for the purpose of calculating basic loss per share has been determined on the assumption that the bonus element in issue of new shares in February 2021 had been effective on January 1, 2021.

For the purpose of calculation of diluted loss per share for the years ended December 31, 2021 and 2022, financial liabilities at FVTPL as detailed in Note 27 and Directors Options as detailed in Note 31 were not included as their inclusion would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Property	Leasehold improvement	Machinery	Vehicles	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At January 1, 2021	10,996	–	11,413	1,680	854	–	24,943
Additions	–	–	3,335	779	706	63,695	68,515
Transfer	–	3,547	–	–	–	(3,547)	–
Disposals	–	–	(97)	–	(140)	–	(237)
Transfer from investment property *(Note 18)*	6,010	–	–	–	–	–	6,010
At December 31, 2021	17,006	3,547	14,651	2,459	1,420	60,148	99,231
Additions	–	–	7,218	–	825	150,844	158,887
Transfer	–	18,257	39,921	–	–	(58,178)	–
Disposals	–	–	(67)	–	(5)	–	(72)
At December 31, 2022	17,006	21,804	61,723	2,459	2,240	152,814	258,046
ACCUMULATED DEPRECIATION							
At January 1, 2021	(7,823)	–	(6,810)	(1,184)	(524)	–	(16,341)
Provided for the year	(740)	(178)	(1,088)	(238)	(145)	–	(2,389)
Disposals	–	–	93	–	133	–	226
Transfer from investment property *(Note 18)*	(4,698)	–	–	–	–	–	(4,698)
At December 31, 2021	(13,261)	(178)	(7,805)	(1,422)	(536)	–	(23,202)
Provided for the year	(1,176)	(1,420)	(2,142)	(268)	(280)	–	(5,286)
Disposals	–	–	64	–	5	–	69
At December 31, 2022	(14,437)	(1,598)	(9,883)	(1,690)	(811)	–	(28,419)
CARRYING VALUES							
At December 31, 2021	3,745	3,369	6,846	1,037	884	60,148	76,029
At December 31, 2022	2,569	20,206	51,840	769	1,429	152,814	229,627

The Company

	Property	Machinery	Vehicles	Office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST					
At January 1, 2021	10,996	11,413	1,437	846	24,692
Additions	–	928	–	236	1,164
Disposals	–	(97)	–	(140)	(237)
Transfer from investment property (Note 18)	6,010	–	–	–	6,010
At December 31, 2021	17,006	12,244	1,437	942	31,629
Additions	–	3,417	–	82	3,499
Disposals	–	(67)	(162)	(5)	(234)
At December 31, 2022	17,006	15,594	1,275	1,019	34,894
ACCUMULATED DEPRECIATION					
At January 1, 2021	(7,823)	(6,810)	(1,169)	(524)	(16,326)
Provided for the year	(740)	(1,015)	(58)	(97)	(1,910)
Disposals	–	93	–	133	226
Transfer from investment property (Note 18)	(4,698)	–	–	–	(4,698)
At December 31, 2021	(13,261)	(7,732)	(1,227)	(488)	(22,708)
Provided for the year	(1,176)	(1,176)	(26)	(83)	(2,461)
Disposals	–	64	154	5	223
At December 31, 2022	(14,437)	(8,844)	(1,099)	(566)	(24,946)
CARRYING VALUES					
At December 31, 2021	3,745	4,512	210	454	8,921
At December 31, 2022	2,569	6,750	176	453	9,948

Property, plant and equipment other than construction in progress are depreciated using the straight-line method after taking into account of their estimated residual values with the following useful lives:

Property	10 to 20 years
Machinery	3 to 10 years
Vehicles	4 to 5 years
Office equipment	3 to 5 years
Leasehold improvement	Shorter of lease terms and 10 years

17. RIGHT-OF-USE ASSETS

The Group

	Leasehold lands	Leasehold properties	Total
	RMB'000	*RMB'000*	*RMB'000*
COST			
At January 1, 2021	24,336	796	25,132
Addition	26,364	23,546	49,910
At December 31, 2021	50,700	24,342	75,042
Addition	–	3,527	3,527
Early termination of a lease	–	(3,527)	(3,527)
At December 31, 2022	50,700	24,342	75,042
ACCUMULATED DEPRECIATION			
At January 1, 2021	(5,078)	(67)	(5,145)
Charge for the year	(1,098)	(2,619)	(3,717)
At December 31, 2021	(6,176)	(2,686)	(8,862)
Charge for the year	(1,098)	(3,365)	(4,463)
Early termination of a lease	–	745	745
At December 31, 2022	(7,274)	(5,306)	(12,580)
CARRYING VALUES			
At December 31, 2021	44,524	21,656	66,180
At December 31, 2022	43,426	19,036	62,462

	For the year ended December 31,	
	2021	2022
	RMB'000	*RMB'000*
Expense relating to short-term leases	17	124
Total cash outflow for leases	18,602	46,021

Right-of-use assets are depreciated on a straight-line basis over the lease terms.

The Group leases lands and properties to operate its business. These leases are made for fixed terms of 3 to 50 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions.

The Group's lease agreements do not contain any contingent rent nor any extension, termination option or purchase option for lessee. Other than leasehold lands, the lease agreements do not impose any covenants other than the security interests in the leased properties that are held by the lessor. Leased properties may not be used as security for borrowing purposes.

In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns buildings where its research and development facilities are primarily located. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for properties and office equipment. As at December 31, 2021 and 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed in Note 11.

The Company

The Company leases lands to operate its business with fixed terms of 50 years.

	Leasehold lands
	RMB'000
COST	
At January 1, 2021, December 31, 2021 and 2022	24,336
ACCUMULATED DEPRECIATION	
At January 1, 2021	(5,078)
Charge for the year	(570)
At December 31, 2021	(5,648)
Charge for the year	(570)
At December 31, 2022	(6,218)
CARRYING VALUES	
At December 31, 2021	18,688
At December 31, 2022	18,118

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Expense relating to short-term leases	14	120
Total cash outflow for leases	14	120

18. INVESTMENT PROPERTY

The Group and the Company

The Company leased out a portion of its building under operating lease to a third party with fixed rental payable quarterly in 2021. The lease is denominated in RMB for a period from January 2018 to December 2021.

The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	Investment property
	RMB'000
COST	
At January 1, 2021	6,010
Transfer to property, plant and equipment	(6,010)
At December 31, 2021	–
DEPRECIATION AND IMPAIRMENT	
At January 1, 2021	(4,262)
Provided for the year	(436)
Transfer to property, plant and equipment	4,698
At December 31, 2021	–
CARRYING VALUES	
At December 31, 2021	–

Investment property is depreciated over 20 years using the straight-line method after taking into account of its estimated residual value.

19. INTANGIBLE ASSETS

The Group and the Company

	License right
	RMB'000
COST	
At January 1, 2021 and December 31, 2021	–
Addition	3,572
At December 31, 2022	3,572
AMORTIZATION	
At January 1, 2021 and December 31, 2021	–
Charge for the year	(135)
At December 31, 2022	(135)
CARRYING VALUE	
At December 31, 2022	3,437

In May 2022, the Company entered into a licensing agreement with an independent third party regarding a non-exclusive license right including intellectual property rights, compounds and products for the clinical trial and future production of the Group's products. Under the terms of the agreement, the total upfront payment was cash consideration of British pound 440,000. The Group also agreed to pay the counterparty future clinical development milestone payments, commercialization milestone payments, as well as royalties on manufacturing and sales of the product under the corresponding research and development project using the rights under the licensing agreement.

The license right is amortized over 18 years which is based on the terms of the licensing agreement and the estimated duration of product sales, whichever is shorter.

20. MATERIALS

The Group

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Materials for research and development projects	5,186	2,370
Testing kits	137	165
Total	5,323	2,535

The Company

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Materials for research and development projects	461	297
Testing kits	137	165
Total	598	462

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	As at 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
Analysed as:		
Non-current	9,393	173,640
Current	4,575	16,829
Total	13,968	190,469

The Company

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Prepayments for purchase of property, plant and equipment	6	–
Value added tax recoverable	3,863	936
Prepayments to suppliers and service providers	1,388	4,792
Deferred share issue costs for [**REDACTED**]	1,458	11,350
Prepayments for [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
Other prepayments	360	11
Amount due from a subsidiary *(Note)*	–	20,000
Others	40	79
Total	8,253	37,169
Analysed as:		
Non-current	3,869	20,936
Current	4,384	16,233
Total	8,253	37,169

Note: The amount is non-trade in nature, unsecured, carries interest at a rate of 2.50% per annum and will mature in December 2024.

22. FINANCIAL ASSETS AT FVTPL

The Group

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Financial assets at FVTPL	532,365	512,664

The Company

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Financial assets at FVTPL	494,768	492,962

The Group and the Company invested in financial products managed by banks in the PRC which can be redeemed at any time or at maturity. There is no predetermined or guaranteed return for each product. Such financial products are accounted for as financial assets at FVTPL under IFRS 9.

23. BANK BALANCES AND CASH

The Group

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Cash on hand	5	–
Bank balances	32,025	68,976
	32,030	68,976
Bank balances and cash denominated in:		
RMB	32,030	63,644
US$	–	5,332
	32,030	68,976

Bank balances carry interest at market rates of 0.3% per annum and 0.01% to 1.9% per annum as at December 31, 2021 and 2022, respectively.

The Company

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Cash on hand	5	–
Bank balances	32,019	59,001
	32,024	59,001

All bank balances of the Company are denominated in RMB. Bank balances carry interest at market rates of 0.3% per annum and 0.25% to 1.90% per annum as at December 31, 2021 and 2022, respectively.

24. ADVANCE PAYMENTS RECEIVED AND OTHER PAYABLES

The Group

	As at 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
	14,785	84,714
Advance payments received and other payables denominated in:		
RMB	13,751	74,819
US$	1,034	9,895
	14,785	84,714

The Company

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Payables for research and development activities	1,013	602
Payables for acquisition of property, plant and equipment	–	141
Accrued salaries and other allowances	2,632	1,959
Accrued [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
Accrued share issue costs for [**REDACTED**]	335	3,638
Other tax payables	71	73
Amount due to a subsidiary *(Note)*	–	3,572
Others	35	43
	4,788	17,549
Advance payments received and other payables denominated in:		
RMB	3,754	7,654
US$	1,034	9,895
	4,788	17,549

Note: The amount is non-trade in nature, unsecured, interest-free, and repayable on demand.

25. LEASE LIABILITIES

The Group

Zhuhai Luzhu leases offices from September 2020 to September 2023. According to the lease agreement, the total rent of RMB841,000 is fully subsidized by the local government or exempted by the lessor if the rental subsidies were not received. Hence, no lease liabilities have been recognized for this lease. The fair value of the lease payments subsidized by the local government amounting to RMB796,000 at the commencement date was recognized as deferred government grants related to the right-of-use assets and the same amount was included in the cost of right-of-use assets correspondingly.

Zhuhai Luzhu leases a property from January 2021 to December 2030 for construction of its manufactory. According to the lease agreement, it is rent-free for the first six months and the rent for the next five years is fully subsidized by the local government or exempted by the lessor if the rental subsidies were not received. The rent for the remaining four and a half years is RMB15,672,000 in aggregate, payable on a monthly basis. At the commencement date, the lease liabilities amounting to RMB9,977,000 was recognized at the present value of the lease payments that are not yet paid, using the incremental borrowing rate of 6.05% per annum. The fair value of the lease payments subsidized by the local government amounting to RMB13,348,000 at the commencement date was recognized as deferred government grants related to the right-of-use assets (Note 26) and the same amount was included in the cost of right-of-use assets correspondingly. The rental deposit paid at initial recognition is RMB500,000, of which the adjustment to fair value amounted to RMB221,000 is considered as additional lease payments and included in the cost of right-of-use assets.

Luzhu Biologics (Beijing) Co. Limited*(綠竹生物製品(北京)有限公司) ("**Beijing Luzhu**") leases a property from April 2022 to April 2025 for research and development. The lease liabilities amounting to RMB3,488,000 was recognized at the present value of the lease payments that are not yet paid, using the incremental borrowing rate of 4.50% per annum. The rental deposit paid at initial recognition is RMB318,000, of which the adjustment to fair value amounted to RMB39,000 is considered as additional lease payments and included in the cost of right-of-use assets. On December 2, 2022, Beijing Luzhu entered into a supplementary agreement with the lessor to terminate the lease. Beijing Luzhu derecognized the right-of-use assets of RMB2,782,000 and lease liabilities of RMB2,990,000, resulting in a gain of RMB239,000 recognized in profit or loss after consideration of refund of rental deposits.

The exposure of the Group's lease liabilities are as follows:

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Non-current liabilities	10,580	11,219
	10,580	11,219
Lease liabilities payable:		
More than two years, but not exceeding five years	1,263	4,449
More than five years	9,317	6,770
	10,580	11,219

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

26. DEFERRED GOVERNMENT GRANTS

The Group

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Current	8,400	9,400
Non-current	38,901	27,371
	47,301	36,771

Movements of deferred government grants

	Deferred government grants related to			
	Plant and machinery	**Right-of-use assets**	**Research and development activities**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2021	32	730	–	762
Government grants received	18,000	–	16,800	34,800
Government grants recognized (Note 25)	–	13,348	–	13,348
Release of deferred government grants to profit or loss	(9)	(1,600)	–	(1,609)
At December 31, 2021	18,023	12,478	16,800	47,301
Government grant received	–	–	1,000	1,000
Release of deferred government grants to profit or loss	(195)	(2,935)	(8,400)	(11,530)
At December 31, 2022	17,828	9,543	9,400	36,771

Government grants include subsidies from local PRC governments which are specifically for (i) compensations of the capital expenditure incurred for purchase of plant and machinery and right-of-use assets, which are recognized over the useful life of the related assets and (ii) the research and development activities, which are recognized upon compliance with the attached conditions.

27. FINANCIAL LIABILITIES AT FVTPL

The Group and the Company

Series A Financing

On July 23, 2019, the Company entered into an investment agreement with two independent investors (the "**Series A Financing**"), pursuant to which the investors shall make total investments of RMB250,000,000 (equivalent to RMB5.09 per share) in the Company as consideration for subscription of 49,112,500 ordinary shares with preference rights of the Company ("**Preference Shares**"). One of the investors ("**Investor A-I**", also known as Beijing Science Sun Pharmaceutical Co., Ltd.* (北京賽升藥業股份有限公司) ("**Beijing Science Sun**"), which appointed a director of the Company on August 2, 2019) paid RMB50,000,000 to subscribe for 9,822,500 Preference Shares in August 2019. The other investor ("**Investor A-II**", which appointed a director of the Company on August 2, 2019) subscribed 39,290,000 Preference Shares at consideration of RMB200,000,000, among which RMB100,000,000 was paid in August 2019 for 19,645,000 Preference Shares and the remaining consideration of RMB100,000,000 would be paid until the Company has completed the phase I clinical trials and kicked off phase II clinical trials for product K-193 (the "**Investment Condition**"). Pursuant to the agreement entered among Investor A-II, Investor A-I and a related party of Investor A-II ("**Investor A-III**") in February 2021, the remaining 19,645,000 Preference Shares would be subscribed by Investor A-I and Investor A-III instead of Investor A-II. The Investment Condition was subsequently waived by relevant parties in March 2021 and the remaining consideration of RMB100,000,000 was injected by Investor A-I and Investor A-III with amount of RMB20,000,000 and RMB80,000,000, respectively. Investor A-I, Investor A-II and Investor A-III, are hereinafter collectively referred to as the "Series A Investors".

* *English name is for identification purpose only.*

The key terms of the Series A Financing are summarized as follows:

(a) Anti-dilution right

If the Company issues new shares at a price lower than the price paid by the Series A Investors, the Series A Investors shall have the right to require: (1) Mr. Kong Jian and Ms. Zhang Yanping to transfer shares at nil consideration; (2) the Company to issue new shares at nil consideration; or (3) Mr. Kong Jian and Ms. Zhang Yanping or the Company to settle the difference in cash to Series A Investors, so that the net amount paid by the Series A Investors divided by the total number of shares obtained is not higher than the price of the newly issued shares.

(b) Redemption right

The investment from the Series A Investors shall be redeemed by the Company and/or Mr. Kong Jian and Ms. Zhang Yanping, at the option of the investors if the Company failed to complete a qualified [**REDACTED**] before December 31, 2022 (the date has been extended to December 31, 2025 upon signing of the Series B+ Financing agreement on December 31, 2021) and/or upon the occurrence of certain contingent events or default events.

The Series A Investors are entitled to receive the redemption amount equal to the original investment amount plus interest of 6% per annum or 8% per annum calculated on a simple basis.

Upon signing of the Series B+ Financing agreement as disclosed below, Series A Investors began to entitle the same redemption right with the Series B+ Investors since December 31, 2021.

Series B Financing

On August 30, 2021, the Company entered into an investment agreement (the "**Series B Financing**") with several investors (collectively as the "**Series B Investors**", one of the Series B Investors appointed a director of the Company on September 10, 2021), pursuant to which the Series B Investors shall subscribe 27,216,175 Preference Shares at an aggregate consideration of RMB350,000,000 (equivalent to RMB12.86 per share). The consideration was fully settled in September 2021.

The key terms of the Series B Financing are summarized as follows:

(a) Liquidation preferences

In the event of any liquidation including deemed liquidation, dissolution or winding up of the Company, the Series B Investors shall be entitled to receive the amount equal to the original investment amount plus interest of 6% per annum calculated on a simple basis and any dividends that have been declared but not yet paid.

(b) Anti-dilution right

If the Company issue new shares at a price lower than the price paid by the Series B Investors, the Series B Investors shall have the right to require Mr. Kong Jian and Ms. Zhang Yanping to transfer shares or the Company to issue new shares to the Series B Investors at nil consideration, a minimum purchase price or nominal value permitted under the PRC laws, so that the amount paid by the Series B Investors divided by the total number of shares obtained is not higher than the price of the newly issued shares.

(c) Redemption right

The investment from the Series B Investors shall be redeemed by the Company and/or Mr. Kong Jian and Ms. Zhang Yanping, at the option of the investors if the Company failed to complete a qualified [**REDACTED**] before December 31, 2025 and/or upon the occurrence of certain contingent events. The Series B Investors shall be entitled to receive the redemption amount equal to the original investment amount plus interest of 6% per annum calculated on a simple basis.

Series B+ Financing

On December 31, 2021, the Company entered into an investment agreement (the "**Series B+ Financing**") with several investors (collectively as the "**Series B+ Investors**"), pursuant to which the Series B+ Investors shall subscribe 6,674,082 Preference Shares at an aggregate consideration of RMB120,000,000 (equivalent to RMB17.98 per share). The consideration was fully settled in January 2022.

The key terms of the Series B+ Financing are summarized as follows:

(a) Liquidation preferences

In the event of any liquidation including deemed liquidation, dissolution or winding up of the Company, the Series B+ Investors shall be entitled to receive the amount equal to the original investment amount plus interest of 6% per annum calculated on a simple basis and any dividends that have been declared but not yet paid.

(b) Anti-dilution right

If the Company issue new shares at a price lower than the price paid by the Series B+ Investors, the Series B+ Investors shall have the right to require Mr. Kong Jian and Ms. Zhang Yanping to transfer shares or the Company to issue new shares to the Series B+ Investors at nil consideration, a minimum purchase price or nominal value permitted under the PRC laws, so that the amount paid by the Series B+ Investors divided by the total number of shares obtained is not higher than the price of the newly issued shares.

(c) Redemption right

The investment from the Series B+ Investors shall be redeemed by the Company and/or Mr. Kong Jian and Ms. Zhang Yanping, at the option of the investors if a qualified [**REDACTED**] has not been consummated by December 31, 2025 and/or upon the occurrence of certain contingent events. The Series B+ Investors shall be entitled to receive the redemption amount equal to the original investment amount plus interest of 6% per annum calculated on a simple basis.

Series C Financing

On June 16, 2022, the Company entered into an investment agreement (the "**Series C Financing**") with several investors (collectively as the "**Series C Investors**"), pursuant to which the Series C Investors shall subscribe 9,478,262 Preference Shares at an aggregate consideration of RMB218,000,000 (equivalent to RMB23.00 per share). The consideration was fully settled in June 2022.

The key terms of the Series C Financing are summarized as follows:

(a) Liquidation preferences

In the event of any liquidation including deemed liquidation, dissolution or winding up of the Company, the Series C Investors shall be entitled to receive the amount equal to the original investment amount plus interest of 6% per annum calculated on a simple basis and any dividends that have been declared but not yet paid.

(b) Anti-dilution right

If the Company issue new shares at a price lower than the price paid by the Series C Investors, the Series C Investors shall have the right to require Mr. Kong Jian and Ms. Zhang Yanping to transfer shares or the Company to issue new shares to the Series C Investors at nil consideration, a minimum purchase price or nominal value permitted under the PRC laws, so that the amount paid by the Series C Investors divided by the total number of shares obtained is not higher than the price of the newly issued shares.

(c) Redemption right

The investment from the Series C Investors shall be redeemed by Mr. Kong Jian and Ms. Zhang Yanping or any third parties nominated by the aforementioned and no redemption obligation is undertaken by the Group.

Upon signing of the Series C Financing agreement, the Series A Investors, Series B Investors, and Series B+ Investors began to entitle the same redemption right with the Series C Investors.

According to the Series C Financing agreement, 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 shall terminate upon the Company's submission of the [**REDACTED**].

Presentation and classification

The Group has designated Preference Shares which contain redemption features and other embedded derivatives as financial liabilities at FVTPL on initial recognition.

The fair value change of Preference Shares is recognized to profit or loss except for the portion attributable to credit risk change which shall be recognized to other comprehensive income, if any. The Directors considered that the credit risk change on the financial liabilities that drive the fair value change of the financial liabilities during the Track Record Period is immaterial.

The movements in the financial liabilities at FVTPL are as follows:

	Financial liabilities at FVTPL
	RMB'000
At January 1, 2021	346,440
Addition	450,000
Change in fair value	441,077
At December 31, 2021	1,237,517
Addition	338,000
Change in fair value	551,546
Reclassification (Note)	(2,127,063)
At December 31, 2022	–

Note: Upon signing of the Series C Financing agreement and the Company's submission of the [**REDACTED**] in June 2022, the Preference Shares meet the definition of equity as the Group has no contractual obligation to deliver cash or a variable number of shares. Therefore, the Preference Shares were reclassified from financial liabilities to equity at their fair value, resulting in an increase of share capital of RMB92,481,000 and an increase of share premium of RMB2,034,582,000.

The fair value of the Preference Shares at December 31, 2021 were valued by the Directors with the assistance of an independent qualified professional valuer, which is not connected to the Group and has appropriate qualifications and experiences in valuation of similar instruments.

Back-solve method was used to determine the underlying equity value of the Company as at December 31, 2021 by reference to the issue price of the Series B+ Financing.

Hybrid method was adopted to allocate the equity value amongst different classes of shares of the Company at the end of the reporting period. The hybrid method is a hybrid between the probability-weighted expected return method ("**PWERM**") and the option pricing method ("**OPM**"), estimating the probability-weighted value across multiple scenarios while using the OPM to estimate the allocation of value within one or more of those scenarios.

Under a PWERM, the values of various equity securities are estimated based on an analysis of future values for the enterprise, assuming various future outcomes. Share value is based on the probability-weighted present value of expected future investment returns, considering each of the possible future outcomes available to the enterprise, as well as the rights of each share class. Common future outcomes model might include [**REDACTED**], liquidation or redemption.

The OPM treats the rights of Preference Shares, ordinary shares and Directors Options as equivalent to that of call options on the Company's equity value, with strike prices based on the liquidation preferences and redemption provisions of Preference Shares. Thus, the equity value of the ordinary shares can be determined by estimating the value of its portion of each of these call option rights.

Key valuation assumptions used to determine the fair value of the Series A Financing and Series B Financing are as follows:

	As at December 31, 2021
Time to [**REDACTED**]	1 year
Time to liquidation	4 years
Risk-free interest rate	2.51%
Volatility	56.49%
Dividend yield	–
Possibilities under liquidation scenario	0.1
Possibilities under [**REDACTED**] scenario	0.8
Possibilities under redemption scenario	0.1

Risk-free interest rate was estimated based on the China government bond yield curve with maturity matching to the expected exit period as at the valuation date.

Volatility was estimated on the valuation date based on median of historical volatilities of the comparable companies in the same industry for a period from the valuation date to expected [**REDACTED**], liquidation or redemption dates, where applicable.

28. SHARE CAPITAL

The Company

	Number of shares	Share capital
	'000	*RMB'000*
Issued and fully paid		
As at January 1, 2021	78,580	78,580
Issue of ordinary shares *(Note)*	12,308	12,308
At December 31, 2021	90,888	90,888
Exercise of Directors Options *(Note 31(d))*	8,695	8,695
Reclassification from financial liabilities at FVTPL *(Note 27)*	92,481	92,481
At December 31, 2022	192,064	192,064

Note: In February 2021, the Company issued 12,308,000 ordinary shares to Zhuhai Hengqin Luzhu Enterprise Management Partnership (LP)* (珠海横琴綠竹企業管理合夥企業(有限合夥)) ("**Hengqin Luzhu LP**") at par value of RMB1 per share. Further details of Hengqin Luzhu LP are set out in Note 31.

* *English name is for identification purpose only.*

29. RESERVES

The Company

	Share premium	Share-based payments reserve	Accumulated loss	Total
	RMB'000	*RMB'000 (Note 31)*	*RMB'000*	*RMB'000*
At January 1, 2021	39,462	4,194	(256,082)	(212,426)
Loss and total comprehensive expense for the year	–	–	(532,670)	(532,670)
Recognition of equity-settled share-based payments	–	76,238	–	76,238
Exercise of share options and vesting of shares granted	34,752	(34,752)	–	–
At December 31, 2021	74,214	45,680	(788,752)	(668,858)
Loss and total comprehensive expense for the year	–	–	(681,617)	(681,617)
Recognition of equity-settled share-based payments	–	111,413	–	111,413
Exercise of Directors Options *(Note 31(d))*	90,907	(90,907)	–	–
Reclassification from financial liabilities at FVTPL *(Note 27)*	2,034,582	–	–	2,034,582
At December 31, 2022	2,199,703	66,186	(1,470,369)	795,520

30. RETIREMENT BENEFITS PLANS

The PRC employees of the Group are members of a state-managed retirement benefits plan operated by the government of the PRC. The Company and its PRC subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefits plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefits plan is to make the specified contributions. The retirement benefits cost charged to profit or loss for the years ended December 31, 2021 and 2022 amounted to RMB733,000 and RMB1,625,000, respectively.

During the Track Record Period, the Group had no forfeited contributions under the above retirement benefit scheme which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at December 31, 2021 and 2022 under such scheme which may be used by the Group to reduce the contribution payable in future years.

31. SHARE-BASED PAYMENT TRANSACTIONS

(a) Share options granted in 2019

On June 11, 2019, certain members of management and eligible employees of the Group were granted options to purchase a total of 3,600,000 ordinary shares of the Company from Mr. Kong Jian with an exercise price of RMB2.50 per share with the service condition of three years from the grant date and certain performance conditions (the "**2019 Share Options**"). The grantees can purchase the shares with the exercise price at any time on or before June 11, 2022. Mr. Kong Jian will repurchase those shares with the original exercise price from the grantees if they leave the Company on or before June 11, 2022. Included in the 2019 Share Options, 1,000,000 share options were granted to Ms. Jiang Xianmin, 500,000 share options were granted to Ms. Peng Ling, and 250,000 share options were granted to Ms. Kong Xi.

The following table discloses movements of the 2019 Share Options.

Category	Outstanding as at January 1, 2021	Grant during the year	Forfeited due to resignation during the year	Exercised during the year	Outstanding as at December 31, 2021
2019 Share Options	2,900,000	–	(350,000)	–	2,550,000

Category	Outstanding as at January 1, 2022	Grant during the year	Forfeited due to resignation during the year	Exercised during the year	Replaced by 2022 Restricted Shares during the year	Outstanding as at December 31, 2022
2019 Share Options	2,550,000	–	–	–	(2,550,000)	–

None of outstanding share options of the 2019 Share Options were exercisable as at December 31, 2021.

The total fair value of the 2019 Share Options determined at the grant date using the Binomial Option Pricing Model is RMB10,966,000.

(b) Share options granted in 2020

On October 19, 2020, a senior management were granted an option to purchase a total of 400,000 ordinary shares of the Company from entities held by Mr. Kong Jian with an exercise price of RMB2.54 per share with the service condition of five years from the grant date (the "**2020 Share Options**"). The grantee can purchase the shares at any time on or before October 19, 2025. Mr. Kong Jian will repurchase those shares with the original exercise price from the grantee plus interest of 10% per annum calculated on a simple basis if the grantee leaves the Company on or before October 19, 2025.

The following table discloses movements of the 2020 Share Options.

Category	Outstanding as at January 1, 2021	Grant during the year	Forfeited due to resignation during the year	Exercised during the year	Outstanding as at December 31, 2021
2020 Share Options	400,000	–	–	–	400,000

Category	Outstanding as at January 1, 2022	Grant during the year	Forfeited due to resignation during the year	Exercised during the year	Replaced by 2022 Restricted Shares during the year	Outstanding as at December 31, 2022
2020 Share Options	400,000	–	–	–	(400,000)	–

None of outstanding share options of the 2020 Share Options were exercisable as at December 31, 2021.

The total fair value of the 2020 Share Options determined at the grant date using the Binomial Option Pricing Model is RMB3,804,000.

(c) Share awards/options granted in 2021

(c-i) Share awards

On February 7, 2021, Ms. Zhang Yanping transferred a total of 800,000 ordinary shares of the Company to Ms. Jiang Xianmin, an executive director, at the consideration of RMB2.54 per share with no condition ("**2021 Share Awards I**"). The fair value of ordinary shares is approximately RMB11.44 per share at the grant date and the Group recognized a share-based payment expense of RMB7,118,000 during the year ended December 31, 2021.

On February 7, 2021, Ms. Zhang Yanping also transferred a total of 1,100,000 ordinary shares of the Company to a senior management at the consideration of RMB2.54 per share with no condition ("**2021 Share Awards II**") (together with 2021 Share Awards I, hereinafter collectively referred to as the "**2021 Share Awards**"). This senior management departed from the Group in September 2021 and transferred all of the 1,100,000 ordinary shares of the Company to Ms. Zhang Yanping at nil consideration, as the consideration payable by this senior management to Ms. Zhang Yanping for the transfer of such 1,100,000 shares in February 2021 had not been settled. The Group recognized a share-based payment expense of RMB9,788,000 during the year ended December 31, 2021.

(c-ii) Share options

Hengqin Luzhu LP was established in the PRC as a limited partnership on January 14, 2021 as an employee incentive platform of the Group and is controlled by Mr. Kong Jian, the sole general partner of Hengqin Luzhu LP.

On February 1, 2021, April 7, 2021, June 15, 2021 and August 2, 2021, certain directors, senior management and eligible employees were granted options to purchase a total of 3,500,000 ordinary shares of the Company through Hengqin Luzhu LP ("**February 2021 Options**", "**April 2021 Options**", "**June 2021 Options**" and "**August 2021 Options**", hereinafter collectively referred to as the "**2021 Share Options**").

The conditions of the 2021 Share Options are described as follows:

February 2021 Options: Included in the 2,000,000 share options granted, the grantees can purchase 1,000,000 shares at grant date immediately and 1,000,000 shares upon completion of the Series B Financing.

April 2021 Options: The grantee can purchase no more than 400,000 shares at any time on or before April 7, 2026. Hengqin Luzhu LP will repurchase those shares with the original exercise price from the grantee plus interest of 5% per annum calculated on a simple basis if the grantee leaves the Group on or before April 7, 2026.

June 2021 Options: Included in the 600,000 share options granted, the grantees can purchase 100,000 shares, 200,000 shares, 200,000 shares and 100,000 shares upon completion of the Series B Financing, Series C Financing, a qualified [**REDACTED**] and a qualified [**REDACTED**] before December 31, 2022 with market value no less than HK$10 billion, respectively. Hengqin Luzhu LP will repurchase those shares with the original exercise price from the grantees plus interest of 5% per annum calculated on a simple basis if the grantees leave the Group on or before June 15, 2023.

August 2021 Options: Included in the 500,000 share options granted, the grantee can purchase 100,000 shares, 200,000 shares and 200,000 shares upon completion of the Series B Financing, acceptance of investigational new drug application for LZ901 in the United States of America and completion of a qualified [**REDACTED**], respectively. Hengqin Luzhu LP will repurchase those shares with the original exercise price from the grantee if the grantee leaves the Group on or before August 2, 2023.

The following table discloses movements of the 2021 Share Options.

Categories	Outstanding as at January 1, 2021	Grant during the year	Forfeited due to resignation during the year	Exercised during the year	Outstanding as at December 31, 2021
February 2021 Options	–	2,000,000	–	(2,000,000)	–
April 2021 Options	–	400,000	–	–	400,000
June 2021 Options	–	600,000	–	–	600,000
August 2021 Options	–	500,000	–	–	500,000
	–	3,500,000	–	(2,000,000)	1,500,000

Categories	Outstanding as at January 1, 2022	Grant during the year	Forfeited due to resignation during the year	Exercised during the year	Cancelled during the year	Replaced by 2022 Restricted Shares during the year	Outstanding as at December 31, 2022
April 2021 Options	400,000	–	–	–	–	(400,000)	–
June 2021 Options	600,000	–	–	–	(75,000)	(525,000)	–
August 2021 Options	500,000	–	–	–	(500,000)	–	–
	1,500,000	–	–	–	(575,000)	(925,000)	–

None of outstanding share options of the 2021 Share Options were exercisable as at December 31, 2021.

The following assumptions were used to calculate the fair values of the 2021 Share Options as at grant date:

	February 2021 Options	April 2021 Options	June 2021 Options	August 2021 Options
Grant date share price	RMB11.44	RMB11.44	RMB11.44	RMB11.44
Exercise price	RMB2.54	RMB2.54	RMB1.00–RMB5.14	RMB5.09
Expected volatility	54.33%	56.92%	55.85%	57.46%
Option life	1.5 years	5 years	2 years	2 years
Dividend yield	0%	0%	0%	0%
Risk-free interest rate	2.65%	3.06%	2.62%	2.30%

The Group has used the discounted cash flow method to determine the underlying equity value of the Company and adopted the equity value allocation model to determine the fair value of the ordinary shares for February 2021 Options. The Group has used the back-solve method to determine the underlying equity value of the Company and adopted the equity value allocation model to determine the fair value of the ordinary shares for April 2021 Options, June 2021 Options and August 2021 Options with reference to the issue price of the Series B Financing. The fair values of the 2021 Share Options determined at the grant date using the Binomial Option Pricing Model are as follows:

	February 2021 Options	April 2021 Options	June 2021 Options	August 2021 Options
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fair value at grant date	17,846	3,802	3,585	3,503

The expected volatility measured at the standard deviation is based on the historical data of the daily share price movement of comparable companies. The fair value of an option varies with different variables of certain subjective assumptions.

(d) Directors Options

On August 30, 2021, share options were granted to three executive directors of the Company with an exercise price of RMB1.00 per share (the "**Directors Options**") with the condition that phase II clinical trials for product LZ901 is kicked off or a new round of financing is completed and pre-investment valuation is not less than RMB4 billion. The number of shares to be purchased will be equal to 5% of the then issued shares of the Company.

The following table discloses movements of the Directors Options.

Category	Outstanding as at January 1, 2021	Grant during the year	Forfeited due to resignation during the year	Exercised during the year	Outstanding as at December 31, 2021
Directors Options	–	8,694,513	–	–	8,694,513

Category	Outstanding as at January 1, 2022	Grant during the year	Forfeited due to resignation during the year	Exercised during the year	Outstanding as at December 31, 2022
Directors Options	8,694,513	–	–	(8,694,513)	–

None of outstanding share options of the Directors Options were exercisable as at December 31, 2021. The total fair value of the Directors Options determined at the grant date using the Binomial Option Pricing Model is RMB90,907,000.

The following assumptions were used to calculate the fair values of the Directors Options as at grant date:

	Directors Options
Grant date share price	RMB11.44
Exercise price	RMB1.00
Expected volatility	65.97%
Expected option life	0.83 years
Dividend yield	0%
Risk-free interest rate	2.27%

The Group has adopted the equity value allocation model to determine the fair value of the ordinary shares with reference to the issue price of the Series B Financing. The expected volatility measured at the standard deviation is based on the historical data of the daily share price movement of comparable companies. The fair value of an option varies with different variables of certain subjective assumptions.

As phase II clinical trials for product LZ901 was kicked off in April 2022, the condition of the Directors Options has been fulfilled during the year ended December 31, 2022. On May 27, 2022, all the Directors Options were exercised and 8,694,513 ordinary shares of the Company were issued at a price of RMB1.00 per share, resulting in an increase of share capital of RMB8,695,000. The amount previously recognized in share-based payments reserve of RMB90,907,000 in relation to the Directors Options were transferred to share premium.

(e) 2022 Restricted Shares

On April 14, 2022 and April 26, 2022, Zhuhai Luzhu Kangrui Enterprise Management Partnership (LP)* (珠海綠竹康瑞企業管理合夥企業(有限合夥)) ("**Zhuhai Luzhu Kangrui**") and Beijing Luzhu Kangrui Enterprise Management Partnership (LP)* (北京綠竹康瑞企業管理合夥企業(有限合夥)) ("**Beijing Luzhu Kangrui**") were established in the PRC, respectively, as employee incentive platforms of the Group through an award of Hengqin Luzhu LP's shares.

In April 2022, an employee incentive scheme was implemented to incentive certain eligible employees of the Group to retain them for the continual operation and development of the Group or to replace certain outstanding share options.

In April 2022, restricted shares representing 8,110,132 ordinary shares of par value of RMB1 each in the share capital of the Company (the "**RSs**") were granted to certain eligible employees (the "**2022 Restricted Shares**"). Including (i) an aggregate of 7,450,000 restricted shares of Zhuhai Luzhu Kangrui and Beijing Luzhu Kangrui were granted, representing 7,450,000 ordinary shares of par value of RMB1 each in the share capital of the Company with the price of RMB2.54, RMB5.09 or RMB7.19 each RS; (ii) 1,942,320 restricted shares of Hengqin Luzhu LP were granted representing 660,132 ordinary shares of par value of RMB1 each in the share capital of the Company with the price of RMB2.94 each RS. Included in 8,110,132 RSs, 3,875,000 RSs were granted to replace the 2019 Share Options, 2020 Share Options, April 2021 Options and June 2021 Options and the remaining 4,235,132 RSs were newly granted.

The consideration was fully settled in May 2022. The vesting of the RSs granted is conditional upon the fulfillment of requisite service conditions until end of the lock up period required by the securities and futures commission or the Stock Exchange after the completion of a qualified [**REDACTED**]. The employees have to transfer out their RSs to the person or entity designated by Mr. Kong Jian, the general partner of Hengqin Luzhu LP, at the original grant price, if their employments with the Group were terminated within the vesting period.

Included in the 2022 Restricted Shares, 1,000,000 RSs were granted to Ms. Jiang Xianmin, 110,000 RSs were granted to Ms. Zhang Yan Ping, 1,154,000 RSs were granted to Ms. Peng Ling, 250,000 RSs were granted to Ms. Kong Xi and 130,000 RSs were granted to Mr. Chen Liang.

The following table discloses movements of the 2022 Restricted Shares.

Category	**Outstanding as at January 1, 2022**	**Grant during the year**	**Forfeited due to resignation during the year**	**Vested during the year**	**Outstanding as at December 31, 2022**
2022 Restricted Shares	–	8,140,132	(30,000)	–	8,110,132

The total fair value of 2022 Restricted Shares is RMB157,385,000 at the grant date which were determined with reference to the issue price of the Series C Financing after deducting the purchase price. The fair values of the 2019 Share Options, 2020 Share Options, April 2021 Options and June 2021 Options at the modification date were RMB52,288,000, RMB8,280,000, RMB8,301,000 and RMB9,166,000, respectively and the incremental fair value granted of RMB283,000 will be recognized in profit or loss over the expected vesting period, with a corresponding adjustment to reserves.

(f) Controlling Shareholders Restricted Shares

On June 18, 2022, Mr. Kong Jian and Ms. Zhang Yanping were granted 350,000 and 10,000,000 restricted shares of Hengqin Luzhu LP representing 118,952 and 3,398,680 ordinary shares of par value of RMB1 each in the share capital of the Company, respectively, with the price of RMB1.00 each restricted share (the "**Controlling Shareholders Restricted Shares**").

The consideration was fully settled as at December 31, 2022 and the vesting of the restricted shares granted is conditional upon the fulfillment of requisite service conditions until end of the lock up period required by the securities and futures commission or the Stock Exchange after the completion of a qualified [**REDACTED**]. The grantees have to transfer out their restricted shares at the original grant price, if their employments with the Group were terminated within the vesting period.

The following table discloses movements of the Controlling Shareholders Restricted Shares.

Category	**Outstanding as at January 1, 2022**	**Grant during the year**	**Forfeited due to resignation during the year**	**Vested during the year**	**Outstanding as at December 31, 2022**
Controlling Shareholders Restricted Shares	–	3,517,632	–	–	3,517,632

The total fair value of Controlling Shareholders Restricted Shares is RMB70,556,000 at the grant date which were determined with reference to the issue price of the Series C Financing after deducting the purchase price.

The share-based payment expense of the Group recognized during the Track Record Period are as follows:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
2019 Share Options	1,798	740
2020 Share Options	684	318
2021 Share Awards	16,906	–
2021 Share Options	20,069	3,667
Directors Options	36,781	54,126
2022 Restricted Shares	–	31,276
Controlling Shareholders Restricted Shares	–	21,286
Total	76,238	111,413

32. FINANCIAL INSTRUMENTS

The Group

Categories of financial instruments

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Financial assets		
Amortized costs	32,368	69,847
Financial assets at FVTPL	532,365	512,664
	564,733	582,511
Financial liabilities		
Amortized cost	11,558	80,722
Financial liabilities at FVTPL	1,237,517	–
	1,249,075	80,722
Lease liabilities	10,580	11,219

The Company

Categories of financial instruments

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Financial assets		
Amortized cost	32,064	79,080
Financial assets at FVTPL	494,768	492,962
	526,832	572,042
Financial liabilities		
Amortized cost	2,085	15,517
Financial liabilities at FVTPL	1,237,517	–
	1,239,602	15,517

Financial risk management objectives and policies

The Group's and the Company's major financial instruments include deposits and other receivables, bank balances and cash, financial assets at FVTPL, other payables, lease liabilities and financial liabilities at FVTPL. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

The Group

As at the end of each reporting period, the Group had the following monetary assets and monetary liabilities denominated in currencies other than RMB.

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Assets		
US$	–	5,332
Liabilities		
US$	1,034	9,895

The Company

As at the end of each reporting period, the Company had the following monetary liabilities denominated in currencies other than RMB.

	As at December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Liabilities		
US$	1,034	9,895

Sensitivity analysis

The Group and the Company were primarily subject to foreign currency risk from the movement of the exchange rates between RMB against US$. At the end of each reporting period, if the exchange rate of RMB had been weaken against US$ by 5% and all other variables were held constant, the Group's and the Company's post-tax loss for each reporting period would increase as follows. For a 5% strengthening of RMB against US$, there would be an opposite impact on the post-tax loss for the year.

The Group

	Increase in post-tax loss	
	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
US$	52	228

The Company

	Increase in post-tax loss	
	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
US$	52	495

(ii) Interest rate risk

The Group's and the Company's fair value interest rate risk relates primarily to fixed-rate lease liabilities (Note 25) and fixed-rate Preference Shares (Note 27). The Group and the Company are also exposed to cash flow interest risk in relation to variable-rate bank balances (Note 23) which carry prevailing market interests and financial products (Note 22). The Group currently does not have a specified policy to manage its interest rate risk but will closely monitor their interest rate risk exposure in the future. No sensitivity analysis on cash flow interest rate risk is presented as the management considers the sensitivity on interest rate risk on bank balances and financial products is insignificant.

(iii) Other price risk

The Group and the Company are exposed to other price risk through Preference Shares measured at FVTPL and investments in financial products measured at FVTPL.

Sensitivity analyses for Preference Shares with fair value measurement categorized within Level 3 were disclosed in Note 33. The management of the Group considers the fluctuation in fair value changes on financial products is insignificant, taking into account the short-term duration of such financial products.

Credit risk and impairment assessment

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

In order to minimize the credit risk, the Group and the Company monitor the exposure to credit risk on an on-going basis. Except for financial assets at FVTPL, the Group and the Company individually assessed the expected credit losses on its financial assets measured at amortized cost, mainly including bank balances, deposits and other receivables, on the basis of a loss rate approach at the end of each reporting period. The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The Group's and the Company's internal credit risk grading assessment comprises the following categories:

Internal credit rating	**Description**	**Financial assets**
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle the amounts in full	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group and the Company have no realistic prospect of recovery	Amount is written off

Bank balances

The Group's and the Company's bank balances are placed with state-owned banks or commercial banks with high credit ratings in the Mainland China. Therefore, the credit risk on bank balances is insignificant and no loss allowance was recognized.

The Group has concentration risk with approximately 99.9% of the Group's bank balances placed with bank A at December 31, 2021 and with approximately 19.9%, 28.5%, 36.5% and 13.3% of the Group's bank balances placed with bank A, bank B, bank C and bank D at December 31, 2022.

The Company has concentration risk with approximately 99.9% of the Company's bank balances placed with bank A at December 31, 2021 and with approximately 21.0%, 30.0%, 38.4% and 10.6% of the Company's bank balances placed with bank A, bank B, bank C and bank D at December 31, 2022.

Deposits and other receivables

The counterparties of the Group's and the Company's deposits and other receivables are subsidiaries of local government or a listed company in the PRC or employees of the Group. The Group and the Company assessed the ECL for its deposits and other receivables individually based on internal credit rating which, in the opinion of the Directors, there is no significant increase in credit risk since initial recognition. No loss allowance was made for deposits and other receivables, the estimated loss rates are limited as the historical observed default rates of counterparties above are minimal, therefore the Group and the Company assessed the ECL for deposits and other receivables are insignificant.

Other than the concentration of credit risks of bank balances mentioned above, the Group and the Company do not have any other significant concentration of credit risk.

Liquidity risk

In management of the liquidity risk, the Group and the Company monitor and maintain levels of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The Group relies on shareholders' investment as a significant source of liquidity.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

The Group

	Interest rates	On demand	Within 180 days	181 days to 365 days	1-5 years	>5 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2021								
Other payables	N/A	–	11,558	–	–	–	11,558	11,558
Financial liabilities at FVTPL	6.00	–	–	–	776,908	–	776,908	1,237,517
		–	11,558	–	776,908	–	788,466	1,249,075
Lease liabilities	6.05	–	–	–	1,666	14,006	15,672	10,580

	Interest rates	On demand	Within 180 days	181 days to 365 days	1-5 years	>5 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2022								
Other payables	N/A	–	80,722	–	–	–	80,722	80,722
Lease liabilities	6.05	–	–	–	5,064	10,608	15,672	11,219

The Company

	Interest rates	On demand	Within 180 days	181 days to 365 days	1-5 years	>5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2021								
Other payables	N/A	–	2,085	–	–	–	2,085	2,085
Financial liabilities at FVTPL	6.00	–	–	–	776,908	–	776,908	1,237,517
		–	2,085	–	776,908	–	778,993	1,239,602

	Interest rates	On demand	Within 180 days	181 days to 365 days	1-5 years	>5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2022								
Other payables	N/A	3,572	11,945	–	–	–	15,517	15,517

33. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's and the Company's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group and the Company use market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group and the Company determine the appropriate valuation techniques and inputs for fair value measurements and works closely with the qualified valuer to establish the appropriate valuation techniques and inputs to the model.

Except for financial assets at FVTPL and financial liabilities at FVTPL as set out below, there is no financial instrument measured at fair value on a recurring basis.

Financial assets

The Group

	NOTE	Fair value as at December 31, 2021	Fair value as at December 31, 2022	Fair value hierarchy	Valuation techniques and key inputs
		RMB'000	RMB'000		
Financial assets at FVTPL	22	532,365	512,664	Level 2	Redemption value quoted by banks.

The Company

	NOTE	Fair value as at December 31, 2021	Fair value as at December 31, 2022	Fair value hierarchy	Valuation techniques and key inputs
		RMB'000	RMB'000		
Financial assets at FVTPL	22	494,768	492,962	Level 2	Redemption value quoted by banks.

Financial liabilities

The Group and the Company

	NOTE	Fair value as at December 31, 2021	Fair value as at December 31, 2022	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationships of unobservable inputs to fair value
		RMB'000	*RMB'000*				
Financial liabilities at FVTPL	27	1,237,517	–	Level 3	Back-solve method, PWERM and OPM	Volatility	The higher the volatility, the higher the fair value, and vice versa *(Note)*.

Note: If the volatility was 5% higher to 61.49% or 5% lower to 51.49% while holding all other variables constant, the carrying amount of financial liabilities at FVTPL would increase by RMB299,000 or decrease by RMB742,000 as at December 31, 2021.

Details of reconciliation of Level 3 fair value measurement for the financial liabilities at FVTPL are set out in Note 27.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information approximate their respective fair values at the end of each reporting period.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The Group

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Lease liabilities	**Financial liabilities at FVTPL**	**Issue costs for financial liabilities at FVTPL**	**Accrued share issue costs for [REDACTED]**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2021	–	346,440	–	–	346,440
Financing cash flows	–	450,000	(6,194)	(1,123)	442,683
Commencement of lease	9,977	–	–	–	9,977
Interest expenses recognized	603	–	–	–	603
Fair value changes	–	441,077	–	–	441,077
Deferred share issue costs for [**REDACTED**]	–	–	–	1,458	1,458
Issue costs incurred	–	–	6,194	–	6,194
At December 31, 2021	10,580	1,237,517	–	335	1,248,432
Financing cash flows	(581)	338,000	(2,547)	(6,589)	328,283
Commencement of lease	3,488	–	–	–	3,488
Interest expenses recognized	722	–	–	–	722
Early termination of a lease	(2,990)	–	–	–	(2,990)
Fair value changes	–	551,546	–	–	551,546
Reclassification	–	(2,127,063)	–	–	(2,127,063)
Deferred share issue costs for [**REDACTED**]	–	–	–	9,892	9,892
Issue costs incurred	–	–	2,547	–	2,547
At December 31, 2022	11,219	–	–	3,638	14,857

35. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2021, the Group entered into a new lease agreement for the use of leased properties for 10 years. On the lease commencement, the Group recognized right-of-use assets, lease liabilities and deferred government grants of RMB23,325,000, RMB9,977,000 and RMB13,348,000 respectively as detailed in Note 25.

During the year ended December 31, 2022, the Group entered into a new lease agreement for the use of leased properties for 3 years. On the lease commencement, the Group recognized right-of-use assets and lease liabilities of RMB3,488,000 and RMB3,488,000 respectively.

36. RELATED PARTY BALANCES AND TRANSACTIONS

a. The Group had the following related party transactions and related parties balance during the Track Record Period:

The Group and the Company

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Purchase of services from related parties		
Beijing Science Sun	47	–

b. Compensation of key management personnel

The emoluments of key management during the Track Record Period are as follows:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Short-term employee benefits	3,575	5,621
Retirement benefits	147	258
Equity-settled share-based payments	47,438	92,217
	51,160	98,096

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at December 31, 2021 and 2022, the investments in subsidiaries of the Company comprise i) capital injection to Zhuhai Luzhu of RMB100,000,000 was paid as at December 31, 2021 and RMB100,000,000 was paid in April 2022; ii) deemed investment to Zhuhai Luzhu of RMB1,343,000 and RMB13,566,000 as at December 31, 2021 and 2022 for share options of the Company granted to employees of Zhuhai Luzhu; iii) capital injection to Hong Kong Luzhu of HK$100,000 (equivalent to RMB81,000) was paid in March 2022; iv) a deemed investment in Hong Kong Luzhu of RMB18,911,000 in March 2022; v) capital injection to Beijing Luzhu of RMB150,000,000 was paid as at December 31, 2022; and vi) deemed investment to Beijing Luzhu of RMB1,492,000 during the year ended December 31, 2022 for share options of the Company granted to employees of Beijing Luzhu.

Name of the subsidiaries	Place/date of establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company December 31, 2021	Equity interest attributable to the Company December 31, 2022	Date of the report	Principal activities
Zhuhai Luzhu *(Note i)*	PRC November 29, 2018	Registered capital of RMB200,000,000 and paid-in capital of RMB200,000,000	100%	100%	100%	research, development and production of vaccines and therapeutic biologics
Luzhu Biologics (Hong Kong) Co., Limited ("**Hong Kong Luzhu**") *(Note ii)*	Hong Kong December 20, 2021	Registered capital of HK$100,000 and issued and paid share capital of HK$100,000	100%	100%	100%	inactive
Beijing Luzhu *(Note iii)*	PRC March 31, 2022	Registered capital of RMB150,000,000 and issued and paid share capital of RMB150,000,000	–	100%	100%	research, development and production of vaccines and therapeutic biologics

Notes:

i. The subsidiary is a limited liability company. The financial statements of Zhuhai Luzhu for the year ended December 31, 2021 were prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and were audited by Talent Certified Public Accountants* (天衡會計師事務所). The financial statements of Zhuhai Luzhu for the year ended December 31, 2022 were prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP..

ii. No audited statutory financial statements have been prepared for Hong Kong Luzhu as the statutory financial statements are not yet due to be issued.

iii. The audited statutory financial statements of Beijing Luzhu for the year ended December 31, 2022 are not yet due to be issued.

* *English name is for identification purpose only.*

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of net debt, which includes the lease liabilities and financial liabilities at FVTPL as disclosed in Notes 25 and 27, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debts.

39. CAPITAL COMMITMENTS

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

Capital commitments are related to expenditures in respect of the acquisition of equipment and machineries and a construction project.

40. EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after December 31, 2022 and up to the date of this report.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to December 31, 2022.