You should read the following discussion and analysis in conjunction with our audited consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this Document. Our consolidated financial information has been prepared in accordance with IFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this Document.

For the purpose of this section, unless the context otherwise requires, references to 2020 and 2021 refer to our financial year ended December 31 of such year. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are an R&D-driven, dermatology-focused biopharmaceutical company dedicated to developing innovative and comprehensive solutions that are tailored to meet the diverse and evolving needs of patients and consumers in the broader dermatology treatment and care market. As of the Latest Practicable Date, we had built a broad portfolio of 11 products and product candidates with significant market potential, targeting the four main sectors of the broader dermatology treatment and care market, namely scalp diseases and care, skin diseases and care, localized adipose accumulation management medication and topical anesthesia. We have successfully marketed two products and are developing five clinical-stage and four pre-clinical-stage drug candidates. Among the five clinical-stage drug candidates, two products have commenced pilot commercialization in Lecheng, Hainan.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") which includes all standards and interpretations issued by the International Accounting Standards Board (the "**IASB**"). All IFRSs effective for the accounting period commencing from January 1, 2022, together with the relevant transitional provisions, have been early adopted by us in the preparation of the historical financial information throughout the Track Record Period and in the period covered by the interim comparative financial information.

The historical financial information has been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value at the end of each of the reporting period.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which may be beyond our control. The following are the principal factors that have affected, and we expect will continue to affect, our business, financial condition, results of operations and prospects.

Our Ability to Successfully Develop and Commercialize Our Product Candidates

Our business and results of operations depend on our ability to successfully develop our drug candidates. As of the Latest Practicable Date, we had built a broad portfolio of 11 products and product candidates with significant market potential, targeting the four main sectors of the broader dermatology treatment and care market, namely scalp diseases and care, skin diseases and care, localized adipose accumulation management medication and topical anesthesia. Our business and results of operations depend on our drug candidates demonstrating favorable safety and efficacy clinical trial results, and our ability to obtain the requisite regulatory approvals for our drug candidates to initiate clinical trials, or to advance to the next stage of clinical development. Whether our drug candidates can demonstrate favorable safety and efficacy clinical trial results, and whether we can obtain the requisite regulatory approvals for our drug candidates in time, are crucial for our business and results of operations.

Our business and results of operations also depend on our ability to commercialize our drug candidates. Our ability to generate revenue from our drug candidates is dependent on our ability to obtain regulatory approvals, establish manufacturing capabilities and sales channels, and undertake extensive sales and marketing efforts. The commercialization may require significant marketing efforts before we generate any revenue from product sales. We have adopted a well-tailored commercialization strategy to penetrate the broader dermatology treatment and care market in China. We believe that our commercialization capabilities will continue to be robust driven by our deep expertise in sales and marketing, close collaboration with e-commerce platforms, and sales and distribution network. However, if we fail to achieve the degree of market acceptance, we may not be able to generate revenue as expected.

Our Cost Structure

Our results of operations and financial conditions are significantly affected by our cost structure, which primarily consists of R&D costs, administrative expenses and selling and distribution expenses.

Since our inception, we have focused our resources on our R&D activities, particularly as we advance the clinical development of our clinical assets, continue R&D of our pre-clinical assets and initiate additional clinical trials of, and seek regulatory approvals for, these and other future drug candidates.

R&D activities are central to our business. Our R&D costs primarily consist of staff costs, share-based payment expenses, licensing-in expenses, third-party contracting costs, depreciation and amortization and others. At this time, it is difficult to estimate or know for certain, the nature, timing and estimated costs of the efforts that will be necessary to complete the development of our drug candidates. We are also unable to predict when, if ever, material net cash inflows will commence from sales of our drug candidates. This is due to the numerous risks and uncertainties associated with developing and commercializing such drug candidates. We expect R&D costs to increase for the foreseeable future as our development programs progress, as we continue to support the clinical trials of our drug candidates and as we initiate additional clinical trials on these drug candidates.

Our selling and distribution expenses primarily consist of staff costs, share-based payment expenses, marketing expenses and others. Given our robust pipeline, especially our two products at commercial stage and another two product candidates at the pilot commercial stage, we are in the process of expanding our sales and marketing team in anticipation of current products and potential product launches in the coming years.

Our administrative expenses primarily consist of staff costs, share-based payment expenses, consulting fees, depreciation and amortization and others. We also expect our administrative expenses to increase in future periods to support our products and development efforts and support any commercialization activities with respect to our drug candidates. We also anticipate increased legal, compliance, accounting, insurance and investor and public relations expenses associated with being a public company in Hong Kong.

Funding for Our Operations

During the Track Record Period, we funded our operations primarily through equity financing. Going forward, as our products achieve greater recognition and adoption by physicians and hospitals, and our product candidates successfully receive regulatory approvals and commence commercialization, we expect to fund our operations at least in part with revenue generated from sales of our commercialized products. However, with the continuing expansion of our business, we may require further funding through public or private [**REDACTED**], debt financing, collaboration and licensing arrangements or other sources. Any fluctuation in the funding for our operations will impact our cash flow plan and our results of operations.

SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

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

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our consolidated financial statements. Our significant accounting policies, judgments and estimates, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 2.3 and 3 to the Accountants' Report in Appendix I to this Document.

Revenue Recognition

Revenue from Contracts with Customers

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

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between us and the customer at contract inception. When the contract contains a financing component which provides us with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of Products

Revenue from the sale of products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products to the specific location and upon the confirmation by the customer.

Right of Return

For contracts which provide a customer with a right to return the products within a specific period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which we will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognized. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

Other Income

Bank interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Research and Development Costs

Expenditure incurred on projects to develop new products is capitalized and deferred only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and our ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Project development expenditure which does not meet these criteria is expensed when incurred. During the Track Record Period, all expenses incurred for R&D activities were expensed when incurred.

Fair Value Measurement

We measure certain financial instruments at fair value at the end of each of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by us. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and maximizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the historical financial information are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the historical financial information on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the reporting period.

During the Track Record Period, we had certain financial liabilities categorized within Level 3 fair value measurement, which included the convertible redeemable preferred shares measured at fair value through profit or loss ("**FVTPL**"). Details of the fair value measurement of our level 3 financial instruments, particularly the fair value hierarchy, the valuation techniques and key inputs, are disclosed in Note 29 of the Accountants' Report set out in Appendix I to this Document.

In relation to the valuation of the Level 3 financial liabilities, with reference to the "Guidance note on directors' duties in the context of valuations in corporate transactions" issued by the SFC, our Directors have adopted the following procedures: (i) reviewing the terms of the relevant agreements and documents regarding the financial liabilities; (ii) engaging an independent valuer to perform valuation procedures with necessary financial and non-financial information and discussing with the valuer on the relevant assumptions; (iii) obtaining sufficient understanding of the valuation model, methodologies and techniques on which the valuation is based; and (iv) reviewing the valuation works and results and the financial statements prepared in accordance with IFRS. Based on the above procedures, our Directors are of the view that the valuation analysis performed during the Track Record Period is fair and reasonable, and our financial statements are properly prepared. In addition, our Directors are satisfied with the valuation work for the Level 3 financial liabilities performed during the Track Record Period.

Share-Based Payments

We operate an equity incentive plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Our employees receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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

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

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

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

Investments and Other Financial Assets

Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and FVTPL.

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

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

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

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

Subsequent Measurement

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

Financial Assets at Amortized Cost (Debt Instruments)

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

Financial Assets at FVTPL

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

This category includes derivative instruments and equity investments which we had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at FVTPL are also recognized as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to us and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVTPL. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVTPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVTPL.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

Our financial liabilities include trade and other payables and convertible redeemable preferred shares.

Subsequent Measurement

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

Financial Liabilities at FVTPL

Financial liabilities at FVTPL include convertible redeemable preferred shares which are designated upon initial recognition as at FVTPL.

Financial liabilities designated upon initial recognition as at FVTPL are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at FVTPL are recognized in profit or loss, except for the gains or losses arising from our own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities. Details of our convertible redeemable preferred shares as at FVTPL are included in Note 21 to the Accountants' Report in Appendix I to this Document.

Financial Liabilities at Amortized Cost

After initial recognition, financial liabilities are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

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

Leases

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

Group as a Lessee

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

(a) Right-of-use Assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Plant	12 years
Office premises	1.5 to 6 years

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

(b) Lease Liabilities

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

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

Our lease liabilities are presented in a separate line on the consolidated statements of financial position.

(c) Short-term Leases and Leases of Low-value Assets

We apply the short-term lease recognition exemption to our short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

Significant Accounting Judgements and Estimates

Research and Development Costs

All research costs are charged to profit or loss as incurred. Costs incurred on each pipeline to develop new products are capitalized and deferred in accordance with the accounting policy for research and development costs in Note 2.3 to the Accountants' Report in Appendix I to this Document. Determining the amounts to be capitalized requires management to make judgments on the technical feasibility of existing pipelines to be successfully commercialized and bring economic benefits to us.

Accrual of Research and Development Costs

We rely on contract research organizations, clinical site management operators, and clinical trial centres (collectively referred as "Outsourced Service Providers") to conduct, supervise, and monitor our ongoing clinical trials in the PRC. Determining the amounts of research and development costs incurred up to the end of each of the reporting period requires the management to estimate and measure the progress of receiving research and development services under the contracts with Outsourced Service Providers using inputs such as number of patient enrollments, time elapsed and milestone achieved.

Fair Value of Convertible Redeemable Preferred Shares

The fair value of the convertible redeemable preferred shares measured at FVTPL is determined using valuation techniques, including the discounted cash flow method and the back-solve method. Such valuation requires us to make estimates of the key assumptions including the risk-free interest rate, discount for lack of marketability and volatility, which are subject to uncertainty.

The fair values of convertible redeemable preferred shares as of the end of each of the reporting period were RMB1,638,600,000, RMB2,242,924,000 and RMB2,417,576,000, respectively. For more details, see Note 21 to the Accountants' Report in Appendix I to this Document.

Fair Value of Share-based Payment Transactions

Estimating the fair value of share-based payment transactions requires the determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

For the measurement of the fair value of share-based payment transactions with employees at the grant date, we use a binomial model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 24 to the Accountants' Report in Appendix I to this Document.

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

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

	Year ended December 31,		Six months ended June 30,	
	2020	**2021**	**2021**	**2022**
	(RMB in thousands)			
			(unaudited)	
Revenue	–	2,038	159	658
Cost of sales	–	(428)	(93)	(205)
Gross profit	–	1,610	66	453
Other income and gains	613	9,517	3,194	58,446
Selling and distribution expenses	–	(6,292)	(1,061)	(5,976)

	Year ended December 31,		Six months ended June 30,	
	2020	2021	2021	2022
	(RMB in thousands)			
			(unaudited)	
Research and development costs	(161,925)	(110,558)	(50,140)	(83,464)
Administrative expenses	(27,912)	(64,745)	(31,548)	(41,147)
Fair value gains/(losses) on convertible redeemable preferred shares	46,529	(120,330)	(35,089)	(174,652)
Other expenses	(56,634)	(28,224)	(10,669)	–
Finance costs	(599)	(559)	(168)	(608)
[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Loss before tax	(199,928)	(319,581)	(125,415)	(251,613)
Income tax expense	–	–	–	–
Loss and total comprehensive loss for the year/period	(199,928)	(319,581)	(125,415)	(251,613)
Attributable to:				
Owners of the parent:				
Ordinary shares holders of the parent	(105,134)	(319,581)	(125,415)	(251,613)
Preferred shares holders of the parent	(64,977)	–	–	–
Non-controlling interests	(29,817)	–	–	–
	(199,928)	(319,581)	(125,415)	(251,613)

Revenue

During the Track Record Period, substantially all of our revenue was generated from the sale of our scalp disease and care products, skin disease and care products, and certain skin care products for daily care and post-treatment maintenance. We expect to continue to generate most of our revenue from such sources and expand our revenue sources upon the commercialization of our products and product candidates. During the Track Record Period, all of our revenue was derived from customers located in Greater China.

Cost of Sales

During the Track Record Period, our cost of sales primarily consisted of purchase costs and logistics costs related to our scalp disease and care products and skin disease and care products and certain skin care products for daily care and post-treatment maintenance.

Gross Profit and Gross Profit Margin

Gross profit represents our revenue less our cost of sales. Gross profit margin represents our gross profit as a percentage of our revenue. We did not generate any revenue or record any cost of sales in 2020. Our gross profit amounted to RMB1.6 million and RMB0.5 million in 2021 and the six months ended June 30, 2022, respectively. Our gross profit margin reached 79.0% and 68.8% during the same periods, respectively.

Other Income and Gains

During the Track Record Period, our other income primarily consisted of interest income and government grants. The government grants mainly represent subsidies received from local government authorities for the purpose of compensation for expenditure arising from research and clinical trial activities. Our interest income comprises (i) bank interest income and (ii) deemed interest income from loans to employees and related parties. In 2020, 2021 and the six months ended June 30, 2022, we recorded other income of RMB0.6 million, RMB9.4 million and RMB3.6 million, respectively.

During the Track Record Period, our gains primarily consisted of net foreign exchange gains, gain on termination of a lease contract and fair value gains on financial assets at FVTPL. We did not record any gains in 2020. In 2021 and the six months ended June 30, 2022, we recorded gains of RMB0.2 million and RMB54.8 million, respectively. The following table summarizes a breakdown of our other income and gains in absolute amounts for the periods indicated:

	Year ended December 31,		Six months ended June 30,	
	2020	**2021**	**2021**	**2022**
	(RMB in thousands)			
			(Unaudited)	
Other income				
Government grants	–	3,185	–	–
Bank interest income	609	6,081	3,000	2,844
Deemed interest income from loans to employees	–	3	–	56
Deemed interest income from loans to related parties	–	29	–	306
Others	4	62	37	419
	613	9,360	3,037	3,625

	Year ended December 31, 2020	Year ended December 31, 2021	Six months ended June 30, 2021	Six months ended June 30, 2022
	(RMB in thousands)		*(Unaudited)*	
Gains				
Foreign exchange gains, net	–	–	–	53,090
Gain on termination of a lease contract	–	157	157	–
Fair value gains on financial assets at FVTPL	–	–	–	1,731
	–	157	157	54,821
	613	9,517	3,194	58,446

Selling and Distribution Expenses

During the Track Record Period, our selling and distribution expenses consisted of staff costs, share-based payment expenses, marketing expenses and others. We did not record any selling and distribution expenses in 2020. In 2021 and the six months ended June 30, 2022, our selling and distribution expenses amounted to RMB6.3 million and RMB6.0 million, respectively. The following table sets forth a breakdown of our selling and distribution expenses in absolute amounts and as percentages of the total selling and distribution expenses for the periods indicated:

	Year ended December 31, 2020		Year ended December 31, 2021		Six months ended June 30, 2021		Six months ended June 30, 2022	
	(RMB in thousands except for percentages)				*(Unaudited)*			
Staff costs	–	–	2,065	32.8%	532	50.1%	2,981	49.9%
Share-based payment expenses	–	–	41	0.7%	–	–	717	12.0%
Marketing expenses	–	–	4,039	64.2%	494	46.6%	1,799	30.1%
Others	–	–	147	2.3%	35	3.3%	479	8.0%
Total	–	–	6,292	100%	1,061	100%	5,976	100%

Research and Development Costs

During the Track Record Period, our R&D costs consisted of staff costs, share-based payment expenses, licensing-in expenses, third-party contracting costs, depreciation and amortization and others. In 2020, 2021 and the six months ended June 30, 2022, we recorded R&D costs of RMB161.9 million, RMB110.6 million and RMB83.5 million, respectively. The following table below sets forth a breakdown of our R&D costs in absolute amounts and as percentages of the total R&D costs for the periods indicated:

	Year ended December 31,				Six months ended June 30,			
	2020		2021		2021		2022	
	(RMB in thousands except for percentages)							
					(Unaudited)			
Staff costs	7,434	4.6%	23,157	20.9%	10,991	21.9%	16,031	19.2%
Share-based payment expenses	5,781	3.6%	10,908	9.9%	6,783	13.5%	20,973	25.1%
Licensing-in expenses	140,962	87.0%	19,434	17.6%	10,717	21.4%	12,644	15.1%
Third-party contracting costs	2,980	1.8%	45,173	40.9%	17,733	35.4%	27,076	32.5%
Depreciation and amortization	1,402	0.9%	6,891	6.2%	2,291	4.6%	5,094	6.1%
Others	3,366	2.1%	4,995	4.5%	1,625	3.2%	1,646	2.0%
Total	161,925	100%	110,558	100%	50,140	100%	83,464	100%

Administrative Expenses

During the Track Record Period, our administrative expenses consisted of staff costs, share-based payment expenses, consulting fees, depreciation and amortization and others. In 2020, 2021 and the six months ended June 30, 2022, we recorded administrative expenses of RMB27.9 million, RMB64.7 million and RMB41.1 million, respectively. The following table sets forth a breakdown of our administrative expenses in absolute amounts and as percentages of the total administrative expenses for the periods indicated:

	Year ended December 31,				Six months ended June 30,			
	2020		2021		2021		2022	
	(RMB in thousands except for percentages)							
					(Unaudited)			
Staff costs	7,177	25.7%	19,314	29.8%	7,334	23.2%	18,230	44.3%
Share-based payment expenses	14,241	51.0%	30,161	46.6%	19,491	61.8%	16,902	41.1%
Consulting fees	4,365	15.6%	7,810	12.1%	1,976	6.3%	1,889	4.6%

	Year ended December 31,				Six months ended June 30,			
	2020		2021		2021		2022	
	(RMB in thousands except for percentages)							
					(Unaudited)			
Depreciation and amortization	904	3.2%	2,902	4.5%	1,066	3.4%	2,202	5.4%
Others	1,225	4.5%	4,558	7.0%	1,681	5.3%	1,924	4.6%
Total	27,912	100%	64,745	100%	31,548	100%	41,147	100%

Fair Value Gains/(Losses) on Convertible Redeemable Preferred Shares

Our fair value gains or losses on convertible redeemable preferred shares represented the changes in fair value of the convertible redeemable preferred shares in relation to our [**REDACTED**] investments. In 2020, we recorded fair value gains on convertible redeemable preferred shares of RMB46.5 million. In 2021 and the six months ended June 30, 2022, we recorded fair value losses on convertible redeemable preferred shares of RMB120.3 million and RMB174.7 million, respectively. For more details regarding preferred shares, see "History, Development and Corporate Structure – [**REDACTED**] Investments" in this Document. The fair value changes of convertible redeemable preferred shares adversely affected our financial performance in 2021 and will continue to affect our financial performance during and subsequent to the Track Record Period until the conversion of preferred shares into ordinary shares upon [**REDACTED**].

Other Expenses

During the Track Record Period, our other expenses comprised of foreign exchange losses, net, and fair value losses on financial assets at FVTPL. The table below summarizes a breakdown of our other expenses for the periods indicated:

	Year ended December 31,		Six months ended June 30,	
	2020	2021	2021	2022
	(RMB in thousands)			
			(Unaudited)	
Foreign exchange losses, net	52,076	23,028	9,297	–
Fair value losses on financial assets at FVTPL	4,558	5,196	1,372	–
	56,634	28,224	10,669	–

Finance Costs

During the Track Record Period, our finance costs consisted of interest on bank borrowings and interest on lease liabilities. In 2020, 2021 and the six months ended June 30, 2022, we recorded finance costs of RMB0.6 million, RMB0.6 million and RMB0.6 million, respectively. The table below summarizes a breakdown of our finance costs in absolute amounts and as percentages of the total finance costs for the periods indicated:

	Year ended December 31,				Six months ended June 30,			
	2020		2021		2021		2022	
	(RMB in thousands except for percentages)							
					(unaudited)			
Interest on bank borrowings	391	65.3%	–	–	–	–	–	–
Interest on lease liabilities	208	34.7%	559	100%	168	100%	608	100%
Total	599	100%	559	100%	168	100%	608	100%

Income Tax

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which we are domiciled and operate.

Cayman Islands

Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains. In addition, upon payments of dividends by us to our shareholders, no Cayman Islands withholding tax is imposed.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at the statutory rate of 16.5% on any estimated assessable profits arising in Hong Kong during the Track Record Period. No Hong Kong profits tax was provided for as we did not generate any assessable profits arising in Hong Kong during the Track Record Period.

Mainland China

Pursuant to the Corporate Income Tax Law of the People's Republic of China and the respective regulations (the "**CIT Law**"), our subsidiaries which operate in Mainland China are subject to CIT at a rate of 25% on the taxable income during the Track Record Period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenue

Our revenue increased by RMB0.5 million from RMB0.2 million for the six months ended June 30, 2021 to RMB0.7 million for the same period of 2022, primarily due to an increase in sales of our scalp disease and care products and skin disease and care products and certain skin care products for daily care and post-treatment maintenance.

Cost of Sales

Our cost of sales increased by RMB0.1 million from RMB0.1 million for the six months ended June 30, 2021 to RMB0.2 million for the same period of 2022, primarily due to an increase in the sales of our products in the six months ended June 30, 2022.

Gross Profit and Gross Profit Margin

Our gross profit increased by RMB0.4 million from RMB66.0 thousand for the six months ended June 30, 2021 to RMB0.5 million for the same period of 2022. The increase in gross profits is primarily driven by (i) increased revenue and (ii) structure change of our product mix. Our gross profit margin increased from 41.5% for the six months ended June 30, 2021 to 68.8% for the six months ended June 30, 2022.

Other Income and Gains

Our other income increased by RMB0.6 million from RMB3.0 million for the six months ended June 30, 2021 to RMB3.6 million for the same period of 2022. This increased was primarily due to an increase in deemed interest income from loans to employees and related parties in the six months ended June 30, 2022. We recorded gains of RMB0.2 million and RMB54.8 million for the six months ended June 30, 2021 and for the same period of 2022, respectively. This change was primarily due to the net foreign exchange gains in the six months ended June 30, 2022.

Selling and Distribution Expenses

Our selling and distribution expenses increased by RMB4.9 million from RMB1.1 million for the six months ended June 30, 2021 to RMB6.0 million for the same period of 2022, primarily due to the increase in staff costs from the expansion in online marketing activities on e-commerce and social media platforms to further drive online direct sales.

Research and Development Costs

Our R&D costs increased by RMB33.4 million, or 66.5%, from RMB50.1 million for the six months ended June 30, 2021 to RMB83.5 million for the same period of 2022, primarily due to (i) an increase in the number of our R&D personnel in the six months ended June 30, 2022, (ii) an increase in share-based payment expenses from new grants under the [**REDACTED**] Equity Incentive Plan in December 2021 and February 2022, and (iii) an overall increase in expenditures for our clinical and pre-clinical R&D activities as we advanced more product candidates along their respective development stages.

Administrative Expenses

Our administrative expenses increased by RMB9.6 million, or 30.4%, from RMB31.5 million for the six months ended June 30, 2021 to RMB41.1 million for the same period of 2022, primarily due to an increase in our total headcount of administrative staff in line with our business expansion plan.

Fair Value Gains/(Losses) on Convertible Redeemable Preferred Shares

Our fair value losses on convertible redeemable preferred shares increased from RMB35.1 million for the six months ended June 30, 2021 to RMB174.7 million for the six months ended June 30, 2022. This increase was primarily attributable to the increase in the fair value of our preferred shares in line with the increase of our valuation in 2022.

Other Expenses

Our other expenses decreased significantly from RMB10.7 million for the six months ended June 30, 2021 to nil for the six months ended June 30, 2022, as a result of the unrealized net foreign exchange gains in fluctuations in foreign currency exchange rates.

Finance Costs

Our finance costs increased by RMB0.4 million from RMB0.2 million for the six months ended June 30, 2021 to RMB0.6 million for the same period of 2022. This increase was primarily due to an increase in interest on lease liabilities.

Year Ended December 31, 2021 Compared to the Year Ended December 31, 2020

Other Income and Gains

Our other income increased by RMB8.8 million, from RMB0.6 million in 2020 to RMB9.4 million in 2021. This increase was primarily due to an increase in the government grants and bank interest income. We did not record any gains in 2020, while we recorded gains of RMB0.2 million in 2021 from gain on termination of a lease contract.

Selling and Distribution Expenses

We did not record any selling and distribution expenses in 2020, while we recorded RMB6.3 million in 2021, as we commenced our sales and distribution activities in 2021.

Research and Development Costs

Our R&D costs decreased by RMB51.3 million, or 31.7%, from RMB161.9 million in 2020 to RMB110.6 million in 2021, primarily due to a decrease in licensing-in expenses as most upfront payments were incurred in 2020, partially offset by the increase in third-party contracting costs, and an increase in the number of our R&D personnel.

Administrative Expenses

Our administrative expenses increased by RMB36.8 million from RMB27.9 million in 2020 to RMB64.7 million in 2021, primarily due to an increase in our total headcount of administrative staff in line with our business expansion and the increase in the share-based payment expenses resulted from the new grant of [**REDACTED**] Equity Incentive Plan in 2021.

Fair Value Gains/(Losses) on Convertible Redeemable Preferred Shares

Our fair value gains/(losses) on convertible redeemable preferred shares changed from a gain of RMB46.5 million for 2020 to a loss of RMB120.3 million for 2021. This change was primarily attributable to (i) the fluctuations in foreign currency exchange rates and (ii) the increase in the fair value of our preferred shares in line with the increase of our valuation in 2021.

Other Expenses

Our other expenses decreased from RMB56.6 million in 2020 to RMB28.2 million in 2021, as a result of the unrealized net foreign exchange losses due to fluctuations in foreign currency exchange rates.

Finance Costs

Our finance costs remained relatively stable in 2020 and 2021.

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

The following table sets forth certain selected items from our consolidated statements of financial position as of the dates indicated:

	As of December 31, 2020	2021	As of June 30, 2022
	(RMB in thousands)		
Total non-current assets	32,826	93,156	173,973
Total current assets	1,118,476	1,401,725	1,301,312
Total assets	1,151,302	1,494,881	1,475,285
Total current liabilities	18,955	19,250	38,118
Total non-current liabilities	1,644,385	2,266,140	2,440,697
Total liabilities	1,663,340	2,285,390	2,478,815
Net current assets	1,099,521	1,382,475	1,263,194
Share capital	11	11	11
Deficits	(512,049)	(790,520)	(1,003,541)

NET CURRENT ASSETS

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

	As of December 31, 2020	2021	As of June 30, 2022	As of October 31, 2022
	(RMB in thousands)			
				(Unaudited)
CURRENT ASSETS				
Inventories	–	1,804	11,985	14,928
Trade receivables	–	–	104	2,834
Prepayments, other receivables and other assets	1,829	21,153	22,111	43,423
Amounts due from related parties	–	498	827	839
Financial assets at FVTPL	138,635	405,492	220,196	113,854
Time deposits over three months	677,842	769,648	470,392	580,589
Cash and cash equivalents	300,170	203,130	575,697	482,327
Total current assets	1,118,476	1,401,725	1,301,312	1,238,794

	As of December 31, 2020	2021	As of June 30, 2022	As of October 31, 2022
	(RMB in thousands)			*(Unaudited)*
CURRENT LIABILITIES				
Trade and other payables	15,188	15,535	34,767	45,803
Lease liabilities	3,767	3,715	3,351	7,927
Total current liabilities	18,955	19,250	38,118	53,730
NET CURRENT ASSETS	1,099,521	1,382,475	1,263,194	1,185,064

We had net current assets of RMB1,099.5 million as of December 31, 2020, as compared to net current assets of RMB1,382.5 million as of December 31, 2021. This increase was primarily due to an increase in prepayments, other receivables and other assets and financial assets at FVTPL mainly due to the purchased financial products issued by banks in 2021.

We had net current assets of RMB1,382.5 million as of December 31, 2021, as compared to net current assets of RMB1,263.2 million as of June 30, 2022. This decrease was primarily due to a decrease of financial assets at FVTPL and an increase in trade and other payables, primarily in relation to our expanded R&D activities.

Inventories

Our inventories primarily consist of raw materials, finished goods and goods in transit. Our inventory increased by RMB10.2 million from RMB1.8 million as of December 31, 2021 to RMB12.0 million as of June 30, 2022 primarily due to an increased balance of goods in transit in inventories in the first half of 2022 as we purchased certain scalp diseases and care products from overseas distribution partners in preparation for commercialization in China.

The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31, 2020	2021	As of June 30, 2022
	(RMB in thousands)		
Raw materials	–	698	450
Finished goods	–	1,106	1,931
Goods in transit	–	–	9,604
Total	**–**	**1,804**	**11,985**

As of October 31, 2022, approximately RMB1.3 million, or 11.0% of our inventories as of June 30, 2022 had been utilized or sold. Since some of our inventories, including scalp diseases and care products, are purchased in relatively large quantities at once from overseas distribution partners in preparation for commercialization in China, our inventory days are driven increased.

Prepayments, Other Receivables and Other Assets (Current)

Our prepayments, other receivables and other assets primarily consists of rental deposits, deemed prepaid remuneration to employees, prepayments, other receivables, value-added tax recoverable and deferred issue costs.

The following tables set forth the breakdown of prepayments, other receivables and other assets as of the dates indicated:

	As of December 31,		As of June 30,
	2020	2021	2022
	(RMB in thousands)		
Current:			
Rental deposits	465	457	1,368
Deemed prepaid remuneration to employees	–	53	219
Prepayments	1,337	20,642	18,256
Other receivables	27	1	65
Value-added tax recoverable	–	–	579
Deferred issue costs	–	–	1,624
	1,829	21,153	22,111

Our current prepayments, other receivables and other assets increased from RMB1.8 million as of December 31, 2020 to RMB21.2 million as of December 31, 2021, and further increased to RMB22.1 million as of June 30, 2022. This increase was primarily attributable to the increase in prepayments amount to suppliers as a result of our enhanced R&D efforts for our drug candidates.

As of October 31, 2022, RMB3.7 million, or 16.6% of our prepayments, other receivables and other assets as of June 30, 2022 were settled.

Financial Assets at FVTPL

Our financial assets at FVTPL at the end of each reporting period mainly represented short-term investments issued by reputable banks. For more details regarding our financial assets at FVTPL, see Note 18 to the Accountants' Report set forth in Appendix I to this Document. The financial product portfolio could be subject to impact of macroeconomic environment conditions, and we monitor the portfolio mix closely. For more details, see "Risk Factors – Risks Relating to Our Financial Position and Need for Additional Capital – Our results of operations, financial condition, and prospects may be adversely affected by fair value changes and credit risk associated with our financial assets at fair value through profit or loss and related valuation uncertainty."

The table below sets forth the financial products purchased as of the dates indicated:

	As of December 31,		As of June 30,
	2020	2021	2022
	(RMB in thousands)		
Financial products	138,635	405,492	220,196

We monitor and control the investment risks associated with our portfolio of financial products with a comprehensive set of internal policies and guidelines to manage our investments. Our finance department is responsible for proposing, analyzing and evaluating potential investment in such products. There are members from our Board and senior management, as well as our finance department, who have extensive experience in managing the financial aspects of enterprise's operations. Our Board determines our investment strategies. Prior to making any material investments in financial products or modifying our existing investment portfolio, the proposal shall be reviewed and approved by our chief executive officer.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash in hand and at bank and short term time deposits. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of us, and earn interest at the respective short term time deposit rates.

As of December 31, 2020, December 31, 2021 and June 30, 2022, our cash and cash equivalents amounted to RMB300.2 million, RMB203.1 million and RMB575.7 million, respectively. Our cash and cash equivalents increased significantly as of June 30, 2022 primarily due to the withdrawal of time deposits over three months and financial assets at FVTPL. The following table below sets forth a breakdown of our cash and cash equivalents by currency type as of the dates indicated:

	As of December 31,		As of June 30,
	2020	2021	2022
	(RMB in thousands)		
Cash and cash equivalents	300,170	203,130	575,697
Denominated in			
RMB	4,563	3,530	441,249
USD	295,607	199,600	134,448

Trade and Other Payables

Our trade and other payables primarily consist of accrued expenses for R&D services, payables for purchase of items of property, plant and equipment, salary and bonus payables and accrued [**REDACTED**] expenses. Our trade and other payables increased by RMB0.3 million, or 2.3%, from RMB15.2 million as of December 31, 2020 to RMB15.5 million as of December 31, 2021, and further increased by RMB19.3 million, or 123.8%, from RMB15.5 million as of December 31, 2021 to RMB34.8 million as of June 30, 2022, primarily due to an increase of salary and bonus payables, payables for purchase of items on property, plant and equipment and accrued [**REDACTED**] expenses.

The following table sets forth a breakdown of our trade payables as of the dates indicated:

	As of December 31,		As of June 30,
	2020	2021	2022
	(RMB in thousands)		
Trade payables	306	335	44
Accrued expenses for research and development services	12,038	7,329	9,518
Payables for purchase of items of property, plant and equipment	680	608	14,716
Other payables	189	1,781	665
Salary and bonus payables	1,666	4,856	4,629
Other taxes payable	309	626	713
Accrued [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
	15,188	15,535	34,767

The following table sets forth an aging analysis of our trade payables based on the invoice date as of the dates indicated:

	As of December 31,		As of June 30,
	2020	2021	2022
	(RMB in thousands)		
Within 3 months	306	265	37
3 to 12 months	–	70	–
Over 12 months	–	–	7
Total	306	335	44

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our operations primarily through equity financing. Our primary uses of cash are to fund the R&D activities of our Core Product and other product candidates, administrative expenses and other recurring expenses.

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

	Year ended December 31,		Six months ended June 30,	
	2020	2021	2021	2022
	(RMB in thousands)			
			(unaudited)	
Net cash flows used in operating activities	(172,659)	(159,877)	(67,863)	(97,542)
Net cash flows (used in)/from investing activities	(742,952)	(410,653)	16,971	431,457
Net cash flows from/(used in) financing activities	1,231,978	480,761	(810)	(3,710)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	316,367	(89,769)	(51,702)	330,205
Cash and cash equivalents at beginning of year/period	33,856	300,170	300,170	203,130
Effect of foreign exchange rate changes, net	(50,053)	(7,271)	(2,816)	42,362
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	300,170	203,130	245,652	575,697

Operating Activities

Our net cash used in operating activities consists primarily of loss before tax, as adjusted by (i) non-cash items and (ii) movements in working capital.

For the six months ended June 30, 2022, our net cash used in operating activities was RMB97.5 million, which was primarily attributable to our loss before tax of RMB251.6 million, adjusted for non-cash items and movements in working capital. Positive adjustments primarily included: (i) fair value losses on convertible redeemable preferred shares of

RMB174.7 million and (ii) share-based payment expenses of RMB38.6 million. Negative adjustments primarily included: (i) net foreign exchange gains of RMB53.1 million and (ii) increase in inventories of RMB10.2 million.

In 2021, our net cash used in operating activities was RMB159.9 million, which was primarily attributable to our loss before tax of RMB319.6 million, adjusted for non-cash items and movements in working capital. Positive adjustments primarily included: (i) fair value losses on convertible redeemable preferred shares of RMB120.3 million, (ii) net foreign exchange losses of RMB23.0 million and (iii) share-based payment expenses of RMB41.1 million. Negative adjustments primarily included the increase in prepayments, other receivables and other assets of RMB28.1 million.

In 2020, our net cash used in operating activities was RMB172.7 million, which was primarily attributable to our loss before tax of RMB199.9 million, adjusted for non-cash items and movements in working capital. Positive adjustments primarily included: (i) net foreign exchange losses of RMB52.1 million and (ii) share-based payment expenses of RMB20.0 million. Negative adjustments primarily included: (i) fair value gains on convertible redeemable preferred shares of RMB46.5 million, and (ii) increase in prepayments, other receivables and other assets of RMB3.5 million.

Investing Activities

For the six months ended June 30, 2022, our net cash generated from investing activities was RMB431.5 million, which was primarily attributable to withdrawal of time deposits of RMB779.0 million and withdrawal of financial assets at FVTPL of RMB409.9 million, partially offset by (i) placement of time deposits of RMB468.5 million, (ii) placement of financial assets at FVTPL of RMB222.9 million and (iii) purchases of items of property, plant and equipment of RMB58.7 million.

In 2021, our net cash used in investing activities was RMB410.7 million, which was primarily attributable to placement of time deposits of RMB257.2 million and placement of financial assets at FVTPL of RMB536.0 million, partially offset by withdrawal of time deposits of RMB154.2 million and withdrawal of financial assets at FVTPL of RMB263.9 million.

In 2020, our net cash used in investing activities was RMB743.0 million, which was primarily attributable to placement of time deposits of RMB679.5 million and purchase of items of property, plant and equipment of RMB19.5 million.

Financing Activities

For the six months ended June 30, 2022, our net cash used in financing activities was RMB3.7 million, primarily as a result of lease payments of RMB2.3 million and payment for rental deposits of RMB0.9 million.

In 2021, our net cash generated from financing activities was RMB480.8 million, primarily as a result of proceeds from issue of convertible redeemable preferred shares of RMB484.0 million and and partially offset by lease payments of RMB3.1 million.

In 2020, our net cash generated from financing activities was RMB1,232.0 million, primarily as a result of proceeds from issue of convertible redeemable preferred shares of RMB1,234.6 million and partially offset by lease payments of RMB1.1 million and payment for rental deposits of RMB1.1 million.

CASH OPERATING COSTS

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

	As at 31 December		**As at 30 June**	
	2020	**2021**	**2021**	**2022**
	RMB in thousands			
			(Unaudited)	
R&D expenses				
R&D costs for Core Product Candidate				
– Staff cost	257	3,289	1,878	2,120
– Licensing-in expenses	18,868	4,717	4,717	–
– Third-party contracting costs	114	11,444	2,718	1,921
– Others	24	1,079	631	232
Total R&D expenses for Core Product	19,263	20,529	9,944	4,273
R&D costs for our other product candidates				
– Staff cost	6,644	18,491	8,989	14,328
– Licensing-in expenses	122,094	14,717	6,000	12,644
– Third-party contracting costs	3,457	49,653	27,073	22,999
– Others	2,245	5,649	2,715	2,866
Total R&D expenses	153,703	109,039	54,721	57,110
Workforce employment cost(1)	6,516	24,399	7,344	26,478
Non-income taxes and royalties	–	–	–	–
Others(2)	6,013	18,958	4,601	13,963
Product marketing	–	4,187	529	2,043
Total cash operating cost	166,232	156,583	67,195	99,594

Notes:

(1) Workforce employment costs represented non-R&D staff costs, mainly including salaries and social insurances.

(2) Mainly consisted of purchase of raw materials, [**REDACTED**] expense, traveling expense and other miscellaneous costs.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that, taking into account the financial resources available, including cash and cash equivalents, time deposits over three months and the estimated net [**REDACTED**] from the [**REDACTED**], as well as our cash burn rate, we have sufficient working capital to cover at least 125% of our costs, including selling and distribution expense, R&D costs, administrative expenses for at least the next 12 months from the date of this Document.

Our cash burn rate refers to the average monthly amount of net cash used in operating activities, payment for property, plant and equipment, payment for intangible assets, and lease payments. We estimate that we will receive net [**REDACTED**] of approximately HK$[**REDACTED**] million in the [**REDACTED**], assuming no [**REDACTED**] is exercised and at an [**REDACTED**] of HK$[**REDACTED**], being the mid-point of the indicative [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**]. Assuming an average cash burn rate going forward of 4.0 times the level in 2021, we estimate that our cash at bank and on hand as of October 31, 2022 will be able to maintain our financial viability for 41 months taking into account the estimated net [**REDACTED**] from the [**REDACTED**] and for 19 months without taking into account the estimated net [**REDACTED**] from the [**REDACTED**]. We will continue to monitor our cash flows from operations closely and expect to raise our next round of financing, if needed, with a minimum buffer of 12 months.

RELATED PARTY TRANSACTIONS

The below table sets forth the transactions with related parties during the Track Record Period.

	Year ended December 31,		Six months ended June 30,	
	2020	2021	2021	2022
	(RMB in thousands)			
			(Unaudited)	
Loans to				
Ms. Zhang Lele	–	7,687	–	–
Mr. Wu Jiaru	–	357	–	958
Mr. Zhu Qi	–	1,132	–	1,409
Ms. Zhang Chunna	–	629	–	1,337
Dr. Lei Lei	–	223	–	1,317
Ms. Xu Jingxin	–	115	–	1,373
	–	10,143	–	6,394

	Year ended December 31,		Six months ended June 30,	
	2020	2021	2021	2022
	(RMB in thousands)			
Deemed prepaid remuneration to				
Ms. Zhang Lele	–	3,440	–	–
Mr. Wu Jiaru	–	158	–	577
Mr. Zhu Qi	–	508	–	848
Ms. Zhang Chunna	–	286	–	805
Dr. Lei Lei	–	106	–	793
Ms. Xu Jingxin	–	62	–	827
	–	4,560	–	3,850
	–	14,703	–	10,244
Deemed interest income from loans to				
Ms. Zhang Lele	–	22	–	189
Mr. Wu Jiaru	–	1	–	17
Mr. Zhu Qi	–	3	–	41
Ms. Zhang Chunna	–	2	–	27
Dr. Lei Lei	–	1	–	17
Ms. Xu Jingxin	–	–	–	15
	–	29	–	306

The below table sets forth the outstanding balances with related parties during the Track Record Period as of the dates indicated:

	As of December 31,		As of June 30,
	2020	2021	2022
	(RMB in thousands)		
Amount due from related parties:			
Loan to related parties:			
Non-trade in nature and non-current			
Ms. Zhang Lele	–	7,709	7,898
Mr. Wu Jiaru	–	358	1,333
Mr. Zhu Qi	–	1,135	2,585
Ms. Zhang Chunna	–	631	1,995
Dr. Lei Lei	–	224	1,558
Ms. Xu Jingxin	–	115	1,503
	–	10,172	16,872

	As of December 31, 2020	2021	As of June 30, 2022
	(RMB in thousands)		
Deemed prepaid remuneration to related parties			
Ms. Zhang Lele	–	3,418	3,229
Mr. Wu Jiaru	–	157	717
Mr. Zhu Qi	–	505	1,312
Ms. Zhang Chunna	–	284	1,062
Dr. Lei Lei	–	105	881
Ms. Xu Jingxin	–	62	874
	–	4,531	8,075
	–	14,703	24,947
Analysed into:			
Current portion	–	498	827
Non-current portion	–	14,205	24,120

The maturity date of the loan borrowed by Ms. Zhang Lele is September 1, 2029. The maturity dates of the loans borrowed by key management personnel fall between August 5, 2029 and February 28, 2032.

Our Directors confirm that our related party transactions during the Track Record Period were on an arm's length basis and in the aggregate would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance. Details of our transactions with and the outstanding balances with related parties during the Track Record Period are set out in Note 27 to the Accountants' Report included in Appendix I to this document.

INDEBTEDNESS

The following table sets forth the breakdown of our lease liabilities and convertible redeemable preferred shares as of the dates indicated:

	As of December 31, 2020	As of December 31, 2021	As of June 30, 2022	As of October 31, 2022
	(RMB in thousands)			
				(unaudited)
Current liabilities:				
Lease liabilities	3,767	3,715	3,351	7,927
Non-current liabilities:				
Convertible redeemable preferred shares	1,638,600	2,242,924	2,417,576	2,472,582
Lease liabilities	5,385	22,816	22,721	45,539
Total	**1,647,752**	**2,269,455**	**2,443,648**	**2,526,048**

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

KEY FINANCIAL RATIO

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

	As of December 31, 2020	As of December 31, 2021	As of June 30, 2022
Current ratio[1]	59.0	72.8	34.1

Note:

(1) Current ratio equals current assets divided by current liabilities as of the end of the year/period.

The increase in current ratio from December 31, 2020 to December 31, 2021 was primarily due to an increase in prepayments, other receivables and other assets and financial assets at FVTPL mainly due to the purchased financial products issued by banks in 2021. The decrease in current ratio from December 31, 2021 to June 30, 2022 was primarily due to a decrease in financial assets at FVTPL and an increase in trade and other payables, primarily in relation to our expanded R&D activities.

CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of each of the Track Record Period.

	As of December 31,		As of June 30,
	2020	**2021**	**2022**
	(RMB in thousands)		
Contracted, but not provided for:			
Acquisition of property, plant and equipment, and other intangible assets	6,980	10,229	80,105

CAPITAL EXPENDITURES

Our historical capital expenditures during the Track Record Period primarily included purchases of items of property, plant and equipment and purchases of items of other intangible assets. We funded our capital expenditures during the Track Record Period mainly from equity financing.

We plan to fund our planned capital expenditures using our cash and cash equivalents and the net [**REDACTED**] received from the [**REDACTED**]. For more details, see "Future Plans and Use of [**REDACTED**]." We may reallocate the funds to be utilized on capital expenditure based on our ongoing business needs.

CONTINGENT LIABILITIES

As of December 31, 2020 and 2021 and June 30, 2022, we did not have any contingent liabilities. We confirm that as of the Latest Practicable Date, there had been no material changes or arrangements to our contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

MARKET RISK DISCLOSURE

Credit Risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

The credit risk of our financial assets, which comprise cash and cash equivalents, time deposits over three months, trade receivables, financial assets included in prepayments, other receivables and other assets and amounts due from related parties arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

For more details, see Note 30 to the Accountants' Report set forth in Appendix I to this Document.

Liquidity Risk

We monitor and maintains a level of cash and cash equivalents deemed adequate by the management of us to finance the operations and mitigate the effects of fluctuations in cash flows.

For more details, see Note 30 to the Accountants' Report set forth in Appendix I to this Document.

Foreign Currency Risk

We are exposed to currency risk primarily through which give rise to cash balances that is denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily U.S. dollars. For more details, see Note 30 to the Accountants' Report set forth in Appendix I to this Document.

DIVIDEND

No dividend has been paid or declared by our Company since its date of incorporation and up to the end of the Track Record Period. Any declaration and payment as well as the amount of dividends will be subject to our Memorandum of Association and the Cayman Companies Act. The declaration and payment of dividends in the future will be determined by our Board of Directors, in its discretion, or the Shareholders in general meeting, and will depend on a number of factors, including our earnings, capital requirements, and overall financial condition. As advised by our Cayman counsel, under the Cayman Companies Act, a Cayman Islands company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a divided by paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. There is no assurance that dividends of any amount will be declared to be distributed in any year.

DISTRIBUTABLE RESERVES

As of June 30, 2022, we did not have any distributable reserves.

[REDACTED] EXPENSE INCURRED AND TO BE INCURRED

[**REDACTED**] expenses mainly comprise legal and other professional fees paid and payable to the professional parties, commissions payable to the [**REDACTED**], and printing and other expenses for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. [**REDACTED**] expenses for the [**REDACTED**] are estimated to be approximately HK$[**REDACTED**] (including (i) [**REDACTED**] commission, incentive fees and [**REDACTED**] fees of approximately HK$[**REDACTED**] and (ii) non-[**REDACTED**]-related expenses of approximately HK$[**REDACTED**], comprising (a) fees and expenses of legal advisors and accountants of approximately HK$[**REDACTED**] and (b) other fees and expenses of approximately HK$[**REDACTED**], at an [**REDACTED**] of HK$[**REDACTED**] per Share, being the mid-point of the indicative [**REDACTED**] range), which represents approximately [**REDACTED**]% of the gross [**REDACTED**] we expect to receive from this [**REDACTED**] assuming no Shares are [**REDACTED**] pursuant to the [**REDACTED**]. RMB[**REDACTED**] (HK$[**REDACTED**]) was recognized and charged to our consolidated statements of profit or loss and other comprehensive income for the six months ended June 30, 2022. After June 30, 2022, approximately HK$[**REDACTED**] is expected to be charged to our consolidated statements of profit or loss and other comprehensive income, and approximately HK$[**REDACTED**] is expected to be charged against equity upon the [**REDACTED**]. The [**REDACTED**] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

[**REDACTED**]

[**REDACTED**]

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this Document, there has been no material adverse change in our financial, operational or trading positions or prospects since June 30, 2022, being the end of the period reported on as set out in the Accountants' Report included in Appendix I to this Document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.