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 2021 and 2022 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 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 nine products and product candidates, targeting the four main sectors of the broader dermatology treatment and care market, namely localized adipose accumulation management medication, scalp diseases and care, skin diseases and care and topical anesthesia. We 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. We also distributed two commercialized products developed by oversea collaboration partners.

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.

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 nine products and product candidates, targeting the four main sectors of the broader dermatology treatment and care market, namely localized adipose accumulation management medication, scalp diseases and care, skin diseases and care 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, acquisition/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.

The reporting accountants' opinion on the Historical Financial Information, as a whole, of our Group for the Track Record Period is set out on page I-2 of Appendix I to this Document.

In relation to the fair value assessment of the financial liabilities requiring level 3 measurements under the fair value classification, the Sole Sponsor has conducted relevant due diligence work, including but not limited to, (i) obtaining and reviewing the terms of the relevant agreements and documents regarding the financial liabilities; (ii) considering the qualification, independence and credentials of the independent valuer engaged by the Company; (iii) discussing with the independent valuer regarding the assumptions, valuation techniques and methodologies applied to determine the valuation; (iv) discussing with the Company to understand its preparation of the underlying information used in the valuation of the level 3 financial liabilities of the Group and the Company's views on the fairness and reasonableness of the assumptions, basis and approaches of the valuation so conducted; (v) discussing with the reporting accountant in respect of audit procedures conducted regarding the valuation in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" and discussing with the reporting accountant about the relevant accounting treatments; and (vi) reviewing the relevant notes in the Accountant's Report as contained in Appendix I to this Document and the reporting accountant's opinion on the historical financial information as a whole for the Track Record Period. Based upon the due diligence work conducted by the Sole Sponsor as stated above, and having considered the views of the Directors and the reporting accountant, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the valuation work performed by the independent valuer and the Company.

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 RMB2,242,924,000 and RMB2,570,021,000, 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,	
	2021	**2022**
	(RMB in thousands)	
Revenue	2,038	11,366
Cost of sales	(428)	(3,428)
Gross profit	1,610	7,938
Other income and gains	9,517	105,696
Selling and distribution expenses	(6,292)	(35,934)
Research and development costs	(110,558)	(180,756)
Administrative expenses	(64,745)	(100,452)
Fair value losses on convertible redeemable preferred shares	(120,330)	(327,097)
Other expenses	(28,224)	–
Finance costs	(559)	(1,728)
[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
Loss and total comprehensive loss for the year	(319,581)	(555,836)
Attributable to:		
Owners of the parent	(319,581)	(555,836)

Revenue

During the Track Record Period, substantially all of our revenue was generated from the sale of our in-licensed and distributed scalp diseases and care products (CU-40102, CUP-MNDE and CUP-SFJH), skin diseases and care products (CU-10201), and certain skin care products, including facial masks, creams, toners, sprays, serums and gels ("Routine Skin Care Products"). The table below summarizes a breakdown of our revenue by products for the periods indicated:

	Year ended December 31,	
	2021	**2022**
	(RMB in thousands)	
Scalp diseases and care products	381	9,298
Skin diseases and care products	–	23
Routine Skin Care Products	1,657	2,045
	2,038	11,366

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. In 2021 and 2022, we recorded revenue of RMB2.0 million and RMB11.4 million, respectively. 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 diseases and care products and skin diseases and care products and Routine Skin Care Products.

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. Our gross profit amounted to RMB1.6 million and RMB7.9 million in 2021 and 2022, respectively. Our gross profit margin reached 79.0% and 69.8% 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 operating activities. Our interest income comprises (i) bank interest income and (ii) deemed interest income from loans to employees and related parties. In 2021 and 2022, we recorded other income of RMB9.4 million and RMB24.0 million, respectively.

During the Track Record Period, our gains primarily consisted of net foreign exchange gains which is in connection with our cash and cash equivalents and time deposits over three months denominated in the U.S. dollars, as a result of the appreciation of the U.S. dollar against RMB, gain on termination of a lease contract and fair value gains on financial assets at FVTPL. In 2021 and 2022, we recorded gains of RMB0.2 million and RMB81.7 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,	
	2021	**2022**
	(RMB in thousands)	
Other income		
Government grants	3,185	6,252
Bank interest income	6,081	16,447

	Year ended December 31, 2021	2022
	(RMB in thousands)	
Imputed interest income on rental and other deposits	–	26
Deemed interest income from loans to employees	3	166
Deemed interest income from loans to related parties	29	732
Others	62	419
	9,360	24,042
Gains		
Foreign exchange gains, net	–	73,979
Gain on termination of a lease contract	157	–
Fair value gains on financial assets at FVTPL	–	7,675
	157	81,654
	9,517	105,696

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. In 2021 and 2022, our selling and distribution expenses amounted to RMB6.3 million and RMB35.9 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,			
	2021		2022	
	(RMB in thousands except for percentages)			
Staff costs	2,065	32.8%	7,325	20.4%
Share-based payment expenses	41	0.7%	5,524	15.4%
Marketing expenses	4,039	64.2%	20,322	56.6%
Others	147	2.3%	2,763	7.6%
Total	6,292	100%	35,934	100%

Research and Development Costs

During the Track Record Period, our R&D costs consisted of staff costs, share-based payment expenses, acquisition/licensing-in expenses, third-party contracting costs, depreciation and amortization and others. In 2021 and 2022, we recorded R&D costs of RMB110.6 million and RMB180.8 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,			
	2021		**2022**	
	(RMB in thousands except for percentages)			
Staff costs	23,157	20.9%	34,432	19.0%
Share-based payment expenses	10,908	9.9%	49,953	27.6%
Acquisition/licensing-in expenses	19,434	17.6%	21,644	12.0%
Third-party contracting costs	45,173	40.9%	56,537	31.3%
Depreciation and amortization	6,891	6.2%	13,054	7.2%
Others	4,995	4.5%	5,136	2.9%
Total	110,558	100%	180,756	100%

The following table below sets forth a breakdown of our R&D costs on the Core Product in absolute amounts and as percentages of the total R&D costs on the Core Product for the periods indicated:

	Year ended December 31,			
	2021		**2022**	
	(RMB in thousands except for percentages)			
Staff costs	3,497	17.7%	4,377	18.4%
Share-based payment expenses	1,470	7.5%	5,935	24.9%
Acquisition expenses	4,717	23.9%	–	–
Third-party contracting costs	8,729	44.3%	12,182	51.3%
Depreciation and amortization	750	3.8%	808	3.4%
Others	551	2.8%	466	2.0%
Total R&D costs for Core Product	19,714	100%	23,768	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 2021 and 2022, we recorded administrative expenses of RMB64.7 million and RMB100.5 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,			
	2021		2022	
	(RMB in thousands except for percentages)			
Staff costs	19,314	29.8%	37,950	37.8%
Share-based payment expenses	30,161	46.6%	44,552	44.4%
Consulting fees	7,810	12.1%	5,618	5.6%
Depreciation and amortization	2,902	4.5%	5,228	5.2%
Others	4,558	7.0%	7,104	7.0%
Total	64,745	100%	100,452	100%

Fair Value Losses on Convertible Redeemable Preferred Shares

Our fair value 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 2021 and 2022, we recorded fair value losses on convertible redeemable preferred shares of RMB120.3 million and RMB327.1 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 2022 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 net foreign exchange losses which is in connection with our cash and cash equivalents and time deposits over three months denominated in the U.S. dollars, as a result of the depreciation of the U.S. dollar against RMB, 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,	
	2021	2022
	(RMB in thousands)	
Foreign exchange losses, net	23,028	–
Fair value losses on financial assets at FVTPL	5,196	–
	28,224	–

Finance Costs

During the Track Record Period, our finance costs consisted of interest on lease liabilities. In 2021 and 2022, we recorded finance costs of RMB0.6 million and RMB1.7 million, respectively. The table below summarizes a breakdown of our finance costs in absolute amounts for the periods indicated:

	Year ended December 31,	
	2021	2022
	(RMB in thousands)	
Interest on lease liabilities	559	1,728
Total	559	1,728

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.

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

Revenue

Our revenue significantly increased by RMB9.4 million from RMB2.0 million for 2021 to RMB11.4 million for 2022, primarily due to an increase in sales of our scalp diseases and care products and Routine Skin Care Products. 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.

Cost of Sales

Our cost of sales significantly increased by RMB3.0 million from RMB0.4 million for 2021 to RMB3.4 million for 2022, primarily due to an increase in the sales of our products in 2022.

Gross Profit and Gross Profit Margin

Our gross profit increased by RMB6.3 million from RMB1.6 million for 2021 to RMB7.9 million for 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 decreased from 79.0% for 2021 to 69.8% for 2022.

Other Income and Gains

Our other income increased by RMB96.2 million, from RMB9.5 million in 2021 to RMB105.7 million in 2022. This increase was primarily due to an increase in the bank interest income and net foreign exchange gains in connection with our cash and cash equivalents and time deposits over three months denominated in the U.S. dollars, as a result of the appreciation of the U.S. dollar against RMB.

Selling and Distribution Expenses

Our selling and distribution expenses increased by RMB29.6 million from RMB6.3 million in 2021 to RMB35.9 million in 2022, primarily due to the increase in staff costs and marketing expenses 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 significantly increased by RMB70.2 million, from RMB110.6 million in 2021 to RMB180.8 million in 2022, primarily due to (i) an increase in the number of our R&D personnel in 2022, (ii) an increase in share-based payment expenses from new grants under the [**REDACTED**] Equity Incentive Plan in December 2021 and 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 RMB35.8 million from RMB64.7 million in 2021 to RMB100.5 million in 2022, 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 December 2021 and 2022.

Fair Value Losses on Convertible Redeemable Preferred Shares

Our fair value losses on convertible redeemable preferred shares increased from RMB120.3 million for 2021 to RMB327.1 million for 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.

Finance Costs

Our finance costs increased by RMB1.1 million from RMB0.6 million in 2021 to RMB1.7 million in 2022. This increase was primarily due to an increase in interest on lease liabilities.

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,	
	2021	**2022**
	(RMB in thousands)	
Total non-current assets	93,156	301,380
Total current assets	1,401,725	1,145,425
Total assets	1,494,881	1,446,805
Total current liabilities	19,250	77,402
Total non-current liabilities	2,266,140	2,615,719
Total liabilities	2,285,390	2,693,121
Net current assets	1,382,475	1,068,023
Share capital	11	11
Deficits	(790,520)	(1,246,327)

NET CURRENT ASSETS

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

	As of December 31,		As of March 31,
	2021	**2022**	**2023**
	(RMB in thousands)		
			(Unaudited)
CURRENT ASSETS			
Inventories	1,804	19,996	22,133
Trade receivables	–	98	6,022
Prepayments, other receivables and other assets	21,153	47,584	48,399
Amounts due from related parties	498	1,240	1,256

	As of December 31,		As of March 31,
	2021	**2022**	**2023**
	(RMB in thousands)		
			(Unaudited)
Financial assets at FVTPL	405,492	43,496	20,054
Time deposits over three months	769,648	567,145	564,814
Cash and cash equivalents	203,130	465,866	403,540
Total current assets	1,401,725	1,145,425	1,066,218
CURRENT LIABILITIES			
Trade and other payables	15,535	68,572	43,484
Lease liabilities	3,715	8,830	8,125
Interest-bearing bank borrowings	–	–	19,800
Deferred income	–	–	400
Total current liabilities	19,250	77,402	71,809
NET CURRENT ASSETS	1,382,475	1,068,023	994,409

We had net current assets of RMB1,382.5 million as of December 31, 2021, as compared to net current assets of RMB1,068.0 million as of December 31, 2022. This decrease was primarily due to an RMB362.0 million decrease in financial assets at FVTPL, which in turn was primarily due to the withdrawal of financial products and an RMB202.5 million decrease in time deposits over three months, primarily in relation to the maturity of our time deposits.

Inventories

Our inventories primarily consist of raw materials and finished goods. Our inventory increased by RMB18.2 million from RMB1.8 million as of December 31, 2021 to RMB20.0 million as of December 31, 2022 primarily due to an increased balance of finished goods in inventories as (i) the increase in the stock up of raw materials and finished goods driven by the increased research and development activities and sales of our products, and (ii) we purchased CUP-MNDE and CUP-SFJH from overseas collaboration 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, 2021	2022
	(in thousands)	
Raw materials	698	1,376
Finished goods	1,106	18,620
Total	**1,804**	**19,996**

As of March 31, 2023, approximately RMB4.3 million, or 21.4% of our inventories as of December 31, 2022 had been utilized or sold.

The following table sets forth an aging analysis of our inventory as the dates indicated:

	As of December 31, 2021	2022
	(RMB in thousands)	
Within one year	1,804	19,746
Over one year and within two years	–	250
Total	1,804	19,996

The following table sets forth our inventory turnover days during the periods indicated:

	As of December 31, 2021	2022
Inventory turnover days(1)	769	1,161

Note:

(1) Inventory turnover days for each period equals the average of the beginning and ending balances of inventories for that period divided by cost of sales for that period and multiplied by the number of days in that period.

Our aging analysis of the inventory is typically within one year. The reasons for our prolonged inventory turnover days from 769 as of December 31, 2021 to 1,161 as of December 31, 2022 include (i) the increase in the stock up of raw materials and finished goods driven by the increased research and development activities and sales of our products and (ii) some of our inventories, including CUP-MNDE and CUP-SFJH, are purchased in relatively large quantities at once from overseas collaboration partners in preparation for commercialization in China due the increased demands of CUP-MNDE and CUP-SFJH and our sales records and ongoing marketing activities.

We believe we are generally not subject to any material recoverability issue of our inventories and no provision for inventories was recorded during the Track Record Period. Most of our inventories are finished goods all within the warranty period and with shelf life for maximum three years. We also have in place dedicated personnel who monitor aging conditions and marketability of our inventories with a view to identifying obsolete and slow-moving inventories so that we can take appropriate remedial measures accordingly. During the Track Record Period and as of the Latest Practicable Date, we did not bear any provision and write off expense. Our management also review the recoverability of our inventories as of the end of each reporting period. We will continue to closely monitor our sales progress and make constant efforts in managing our inventories turnover. In light of these, we do not expect to experience any material issue in recoverability of inventories in the foreseeable future.

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, 2021	2022	As of March 31, 2023
	(RMB in thousands)		
			(unaudited)
Current:			
Rental deposits	457	593	1,016
Deemed prepaid remuneration to employees	53	244	236
Prepayments	20,642	37,756	34,774
Other receivables	1	58	59
Value-added tax recoverable	–	2,725	5,299
Deferred issue costs	–	6,208	7,015
	21,153	47,584	48,399

Our current prepayments, other receivables and other assets significantly increased from RMB21.2 million as of December 31, 2021 to RMB47.6 million as of December 31, 2022. This increase was primarily attributable to the increase in prepayments amount to third-party contracting services (CRO and CDMO services) for pre-clinical evaluation and clinical trials of our product candidates and inventories.

The financial assets measured at amortized cost included in the above balances relate to receivables for which there were no recent history of default and past due amounts. In addition, there is no significant change in the economic factors based on the assessment of the forward-looking information, so we are of the opinion that the expected credit loss in respect of these balances are minimal.

As of March 31, 2023, approximately RMB13.9 million, or 29.2% of our prepayments, other receivables and other assets as of December 31, 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 with no predetermined or guaranteed return which are not principal protected investments which is subject to the compliance with Chapter 14 of the Listing Rules upon [**REDACTED**]. 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,	
	2021	**2022**
	(RMB in thousands)	
Financial products	405,492	43,496

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 and strives to ensure our investment in financial products complies with relevant laws and regulations. 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 and the Board.

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, 2021 and 2022, our cash and cash equivalents amounted to RMB203.1 million and RMB465.9 million, respectively. Our cash and cash equivalents increased significantly 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,	
	2021	**2022**
	(RMB in thousands)	
Cash and cash equivalents	203,130	465,866
Denominated in		
RMB	3,530	381,658
USD	199,600	84,208

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 significantly increased by RMB53.1 million, from RMB15.5 million as of December 31, 2021 to RMB68.6 million as of December 31, 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. Payables for purchase of items of property, plant and equipment were mainly attributable to the ongoing construction of three small-molecule formulation commercial-scale manufacturing facilities in Wuxi, Jiangsu province. For more details, see "Business – Manufacturing" in this Document.

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

	As of December 31,	
	2021	**2022**
	(RMB in thousands)	
Trade payables	335	–
Accrued expenses for research and development services	7,329	6,021
Payables for purchase of items of property, plant and equipment	608	28,176
Other payables	1,781	2,943
Salary and bonus payables	4,856	11,859
Other taxes payable	626	960
Accrued [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]
	15,535	68,572

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,	
	2021	**2022**
	(RMB in thousands)	
Within 3 months	265	–
3 to 12 months	70	–
Total	335	–

As of March 31, 2023, approximately RMB36.8 million, or 53.7% of our trade and other payable as of December 31, 2022 were settled.

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,	
	2021	**2022**
	(RMB in thousands)	
Operating cash flows before movements in working capital	(125,835)	(207,087)
Changes in working capital	(34,042)	(29,103)
Net cash flows used in operating activities	(159,877)	(236,190)
Net cash flows (used in)/from investing activities	(410,653)	462,065
Net cash flows from/(used in) financing activities	480,761	(10,249)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(89,769)	215,626
Cash and cash equivalents at beginning of year	300,170	203,130
Effect of foreign exchange rate changes, net	(7,271)	47,110
CASH AND CASH EQUIVALENTS AT END OF YEAR	203,130	465,866

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.

In 2022, our net cash used in operating activities was RMB236.2 million, which was primarily attributable to our loss before tax of RMB555.8 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 RMB327.1 million, (ii) share-based payment expenses of RMB100.0 million and (iii) the increase in trade and other payables of RMB21.6 million. Negative adjustments primarily included: net foreign exchange gains of RMB74.0 million and the increase in prepayments, other receivables and other assets of RMB24.4 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.

As our business develops and expands, we expect to generate more cash flow from our operating activities. In particular, we plan to:

- Further increase the sales of our approved products. We expect our revenue from product sales will continue to achieve robust growth going forward;

- Optimizing our production plan based on our sales volumes to shorten our inventory turnover days in order to keep a stable cash flow;

- Rapidly advancing our pipeline products towards commercialization to generate revenue from product sales.

Investing Activities

In 2022, our net cash generated from investing activities was RMB462.1 million, which was primarily attributable to withdrawal of time deposits of RMB779.0 million and withdrawal of financial assets at FVTPL of RMB751.3 million, partially offset by (i) placement of time deposits of RMB539.7 million, (ii) placement of financial assets at FVTPL of RMB381.6 million and (iii) purchases of items of property, plant and equipment of RMB134.4 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.

Financing Activities

In 2022, our net cash used in financing activities was RMB10.2 million, primarily as a result of lease payments of RMB6.9 million, issue costs paid of RMB2.4 million and payment for rental deposits of RMB1.0 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.

CASH OPERATING COSTS

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

	As at December 31,	
	2021	2022
	RMB in thousands	
R&D expenses		
R&D costs for Core Product Candidate		
– Staff cost	3,289	4,086
– Acquisition expenses	4,717	–
– Third-party contracting costs	11,444	13,155
– Others	1,079	920
Total R&D expenses for Core Product	20,529	18,161
R&D costs for other product candidates		
– Staff cost	18,491	28,060
– Licensing-in expenses	14,717	21,644
– Third-party contracting costs	49,653	47,899
– Others	5,649	10,511
Total R&D expenses for other products	88,510	108,114
Total R&D expenses	109,039	126,275
Workforce employment cost(1)	24,399	49,674
Others(2)	18,958	49,421
Product marketing	4,187	22,446
Total cash operating cost	156,583	247,816

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 2.0 times the level in 2022, we estimate that our cash at bank and on hand as of December 31, 2022 will be able to maintain our financial viability for 39 months taking into account the estimated net [**REDACTED**] from the [**REDACTED**] and for 17 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,	
	2021	**2022**
	(RMB in thousands)	
Loans to		
Ms. Zhang Lele	7,687	7,983
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	14,377

	Year ended December 31,	
	2021	**2022**
	(RMB in thousands)	
Deemed prepaid remuneration to		
Ms. Zhang Lele	3,440	4,864
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	8,714
	14,703	23,091
Deemed interest income from loans to		
Ms. Zhang Lele	22	397
Mr. Wu Jiaru	1	50
Mr. Zhu Qi	3	102
Ms. Zhang Chunna	2	76
Dr. Lei Lei	1	55
Ms. Xu Jingxin	–	52
	29	732

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,	
	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	16,089
Mr. Wu Jiaru	358	1,366
Mr. Zhu Qi	1,135	2,646
Ms. Zhang Chunna	631	2,044
Dr. Lei Lei	224	1,596
Ms. Xu Jingxin	115	1,540
	10,172	25,281

	As of December 31, 2021	2022
	(RMB in thousands)	
Deemed prepaid remuneration to related parties		
Trade in nature		
Ms. Zhang Lele	3,418	7,885
Mr. Wu Jiaru	157	684
Mr. Zhu Qi	505	1,251
Ms. Zhang Chunna	284	1,013
Dr. Lei Lei	105	843
Ms. Xu Jingxin	62	837
	4,531	12,513
	14,703	37,794
Analysed into:		
Current portion	498	1,240
Non-current portion	14,205	36,554

The maturity dates of the loans borrowed by Ms. Zhang Lele in 2021 and 2022 are September 1, 2029 and November 20, 2032, respectively. The maturity dates of the loans borrowed by other key management personnel fall between August 5, 2029 and February 28, 2032.

We provided an eight-year unsecured and non-interest-bearing loan of RMB11,127,000 and a ten-year unsecured and non-interest-bearing loans of RMB12,847,000 to Ms. Zhang Lele in December 2021 and December 2022, respectively. Meanwhile, we also provided unsecured and non-interest-bearing loans of RMB3,576,000 and RMB10,244,000 to other key management personnel in December 2021 and March 2022, respectively, with terms ranging from 7.5 years to 10 years. We provided these loans as part of our efforts to retain and motivate employees and such loans are available to all eligible employees who are part of the [**REDACTED**] Equity Incentive Plan. The participants are required to repay such loans in full before he or she leaves the Company or right after the exercise of the relevant awards under the [**REDACTED**] Equity Incentive Plan. On initial recognition, the receivable was measured at fair value, which in this case was equal to the cash consideration given discounted to the present value. The difference between the loan amount and its fair value on initial recognition date was treated as deemed prepaid remuneration to Ms. Zhang Lele and other key management personnel and is amortized through the expected loan terms.

The loans to related parties are non-trade in nature and will not be settled prior to [**REDACTED**].

Mr. Zhu Qi is the chief medical officer. Dr. Lei Lei is the senior vice president of research and development department. Ms. Zhang Chunna is the senior vice president of regulatory affairs department. Ms. Xu Jingxin is the senior vice president of manufacturing and quality control department. Mr. Wu Jiaru is the senior vice president of finance and integrated management department.

The deemed interest income from loans is recognized on an accrual basis using the effective interest rate to the net carrying amount of the loans. The loan or any deemed interest income would be netted against the 6 borrowers' respective remuneration.

Our Directors have assessed the expected loss rate for amounts due from related parties by considering the financial position and credit history of these related parties and assessed that the expected credit loss is minimal.

We provided loans to those key management personnel due to the withholding and payment of tax arising from share incentive scheme transfers. It is in line with industry practice according to Frost & Sullivan. The key management personnel is required to repay such loans before he or she leaves the Company or right after the exercise of the awards under the share incentive scheme. During the Track Record Period and as of the Latest Practicable Date, no such key management personnel has left the Company or exercised his or her awards. In relation to the tax arising from the share incentive scheme transfer, our PRC Legal Advisor has advised us that, according to the Circular of the Ministry of Finance and the State Administration of Taxation on Issues Concerning the Imposition of Individual Income Tax on Incomes from Individual Stock Options (《財政部、國家稅務總局關於個人股票期權所得徵收個人所得稅問題的通知》), the individual income taxes on incomes from stock options granted to enterprise employees by an enterprise implementing the stock option plan shall be imposed pursuant to the Individual Income Tax Law of the People's Republic of China and the Regulation on the Implementation thereof. As a general rule, the stock options that are received by an employee in an enterprise implementing the stock option plan may not be taken as taxable incomes, unless it is otherwise prescribed by relevant taxation provisions. When an employee exercises his right, if the actual purchase price (exercise price) at which an employee gets stocks from his enterprise is lower than the fair market price on the purchase day (which refers to the closing price of stocks on that day, similarly hereinafter), the difference is the incomes relating to his service and employment due to his performance and accomplishments in this enterprise, therefore, the individual income taxes on such kind of incomes shall be imposed pursuant to the provisions on incomes from wages and salaries. If, under special circumstances, an employee transfers his stock options prior to the exercise day, the net incomes from the transfer shall be the basis for calculating the individual income taxes on his income from wages and salaries. In relation to the loans to related parties stated above, our PRC Legal Advisor has advised us that, according to the General Lending Provisions (the "**General Lending Provisions**") (《貸款通則》) promulgated by the PBOC, a loan means a currency fund provided by a lender to a borrower and both the principal amount and interests shall be paid back, according to the interest rate and duration agreed. Enterprises are prohibited from engaging in borrowing and lending or borrowing and lending in a disguised manner in violation of laws and regulations. If enterprises engage in borrowing and lending or borrowing and lending in a disguised manner without authorization, the PBOC may impose a fine on the lending party in an amount equal to one to five times of the illegal proceeds generated from the lending activity, and concurrently, invalidate such lending activity. All of our loans to related parties were non-interest-bearing during the Track Record Period, and therefore the capital lent out did not constitute currency funds bearing interest. Our PRC Legal Advisor further advised that, notwithstanding the General Lending Provisions, according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "**Judicial Interpretations on Private Lending Cases**") which came into effect on 23 June 2015 and was latest amended on 1 January 2021, the Supreme People's Court recognizes the validity of lending transactions between non-financial institutions so long as such agreements are for production or business operation purposes and do not fall into certain situations stipulated in the PRC Civil Code and the Judicial Interpretations on Private Lending Cases. As confirmed by our Company having taken the advice of the PRC Legal Advisor regarding to the relevant provisions of the Civil Code of the PRC and the Judicial Interpretations on Private Interpretations on Private Lending Cases, the agreements of the loans to related parties as disclosed above were for business operation purposes and did not fall into the situations which would lead to the invalidation of such loan agreements. As of the Latest Practicable Date, we had not received any notice of claim and were not subject to any investigation or penalty relating to the loans we provided to related parties during the Track Record Period. Having taking into account the above, our PRC Legal Advisor is of the view that (i) our Group's loans to related parties were valid under the current PRC laws and regulations and do not violate any mandatory provision of applicable PRC laws and regulation; (ii) our Group's loan are not regarded as a circumvention of PRC laws and regulations and (iii) the risk of us being penalized under the General Lending Provisions for the above-mentioned loans is remote.

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.

Pursuant to Rule 14A.31 of the Listing Rules, continuing connected transactions are connected transactions involving the provision of goods or services or financial assistance, which are carried out on a continuing or recurring basis and are expected to extend over a period of time. The loan under the [**REDACTED**] Equity Incentive Plan extended to Ms. Zhang Lele, a Director and the CEO of the Company, is a one-off transaction which has been entered into prior to [**REDACTED**] and thus, is not subject to the requirements under Chapter 14A of the Listing Rules. Since the loan will not be recurring after [**REDACTED**], it will not constitute a continuing connected transaction subject to relevant requirements under Chapter 14A of the Listing Rules after [**REDACTED**]. As no option or share awards will be further granted under the [**REDACTED**] Equity Incentive Plan after [**REDACTED**], we do not expect to grant any loans to the grantees (including but not limited to any connected persons of the Company) of the [**REDACTED**] Equity Incentive Plan. Except Ms. Zhang Lele, there is no existing loan arrangement between the Company and any other connected persons of the Company as of the Latest Practicable Date. There will be no similar loan arrangement with the grantees in relation to the share options or share awards to be granted under the [**REDACTED**] Equity Incentive Plan.

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, 2021	As of December 31, 2022	As of March 31, 2023
		(RMB in thousands)	
			(unaudited)
Current liabilities:			
Lease liabilities	3,715	8,830	8,125
Interest-bearing bank borrowings	–	–	19,800
Non-current liabilities:			
Convertible redeemable preferred shares	2,242,924	2,570,021	2,624,567
Lease liabilities	22,816	45,298	43,179
Total	**2,269,455**	**2,624,149**	**2,695,671**

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. As of the March 31, 2023, we have unutilized banking facilities of RMB60.2 million.

KEY FINANCIAL RATIOS

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

	As of December 31,	
	2021	**2022**
Current ratio[1]	72.8	14.8
Quick ratio[2]	72.7	14.5

Notes:

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

(2) Quick ratio equals currents assets less inventories and divided by current liabilities as of the end of the year.

Our current ratio decreased from 72.8 as of December 31, 2021 to 14.8 as of December 31, 2022, and our quick ratio decreased from 72.7 as of December 31, 2021 to 14.5 as of December 31, 2022, 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,	
	2021	**2022**
	(RMB in thousands)	
Contracted, but not provided for:		
Acquisition of property, plant and equipment, and other intangible assets	10,229	6,456

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, 2021 and 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 (i.e. the solvency test as provided in the Cayman Companies Act). As advised by our Cayman counsel, the financial position of accumulated losses does not prohibit us from declaring and paying dividends to our Shareholders, as dividends may still be declared and paid out of our share premium account notwithstanding our profitability, provided that we satisfy the solvency test set out in the Cayman Companies Act. There is no assurance that dividends of any amount will be declared to be distributed in any year.

DISTRIBUTABLE RESERVES

As of December 31, 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, [**REDACTED**] 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$[**REDACTED**], comprising (i) [**REDACTED**]-related expenses (including but not limited to [**REDACTED**] and fees) of approximately HK$[**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 issued pursuant to the [**REDACTED**]. RMB[**REDACTED**] (HK$[**REDACTED**]) was recognized and charged to our consolidated statements of profit or loss and other comprehensive income for the year ended December 31, 2022. After December 31, 2022, approximately HK$[**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 December 31, 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.