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

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, our actual performance may differ materially from those anticipated in these forward-looking statements, as a result of various risks and uncertainties over which we do not have full control. For details, see "Forward-looking Statements" and "Risk Factors."

OVERVIEW

We are an integrated and innovative biopharmaceutical company committed to the R&D, manufacturing and commercialization of novel drugs to address medical needs in China and globally. We take a systematic, indication-oriented approach to target the world's prevalent or hard-to-treat cancers, and other diseases and conditions affecting a large and underserved population. Over the years, we have developed integrated capabilities encompassing all key drug development functionalities, which empower us to rapidly and strategically advance a differentiated and clinically valuable pipeline of 33 assets, including 14 in clinical stage as of the Latest Practicable Date.

We currently have no products approved for commercial sales and was loss-making during the Track Record Period. For the years ended December 31, 2021 and 2022, we had net losses of RMB889.8 million and RMB616.1 million, respectively, which primarily resulted from research and development expenses and administrative expenses. Leveraging our R&D capabilities and technology platforms, we had entered into nine out-license agreements as of the Latest Practicable Date. For the years ended December 31, 2021 and 2022, we recognized revenue of RMB32.3 million and RMB803.9 million, respectively, among which, RMB4.5 million and RMB785.9 million during the same years were in relation to these license and collaboration agreements.

We expect to incur significant expenses for at least the next several years as we continue to advance our preclinical research and clinical development plans, and to prepare for the commercialization of our drug candidates. Subsequent to the [**REDACTED**], our financial performance may fluctuate from period to period due to, among other factors, the development status of our drug candidates, regulatory approval timeline, and commercialization of our drug candidates after approval.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which comprise all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). The IASB has issued certain new and revised IFRSs. For the purpose of preparing the historical financial information, we have consistently adopted all applicable new and revised IFRSs throughout the Track Record Period, except for any new standards or interpretations that were not yet effective for the accounting period beginning on January 1, 2022. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on January 1, 2022 and not yet adopted by us are described in detail in note 31 to the Accountants' Report set out in Appendix I to this document. The historical financial information has been prepared under the historical cost convention. Our historical financial information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the most significant factors affecting our results of operations and financial condition include the following:

Our Ability to Successfully Develop and Commercialize Our Drug Candidates

Our product pipeline includes drug candidates at various stages of development. Our business and results of operations depend on our ability to successfully advance our drug development programs, demonstrate satisfactory safety and efficacy clinical trial results, and obtain the requisite regulatory approvals and launch our products in our target markets as planned. As of the Latest Practicable Date, we had developed a pipeline of 33 assets, including 14 in clinical stage and four in IND-enabling stage. Five of our 14 clinical-stage drug candidates were in pivotal trial- or NDA registration-stage in China. See "Business – Our Pipeline" for more details.

Based on the expected approval timeline of each late-stage project in our pipeline, we expect to receive conditional marketing approval from the NMPA for A167 (PD-L1 mAb), our first innovative drug in NDA registration stage, in the second half of 2023 or the first half of 2024. Subject to regulatory communications and marketing approval, we expect to launch our Core Products, SKB264 and A166, and A140 in the China market in the second half of 2024 or the first half of 2025. After our drug candidates are commercialized, our business and results of operations will depend on the market acceptance and sales of our commercialized drugs. See also "Risk Factors – Risks Relating to the Development of Our Drug Candidates – Our business and prospects depend substantially on the success of our drug candidates. If we are unable to successfully complete clinical development, obtain regulatory approvals or achieve commercialization for our drug candidates, or if we experience significant delays or cost overruns in doing any of the foregoing, our business and prospects could be materially and adversely affected."

Our Existing and Future Collaboration and Licensing Arrangements

Our results of operations have been, and may continue to be, affected by our license and collaboration agreements with business partners. To date, we have entered into nine out-license agreements. For details, see "Business – License and Collaboration Arrangements." For the years ended December 31, 2021 and 2022, we recognized revenue from license and collaboration agreements of RMB4.5 million and RMB785.9 million, respectively. These arrangements enable us to maximize the global value of the relevant assets and provide us with the capital support to advance our other pipeline assets and pursue opportunities for long-term growth.

Meanwhile, we may be required to pay license fees (such as upfront payments and milestone payments) pursuant to certain co-development, in-license or similar arrangements, or if we enter into such arrangements in the future. See "Business – Our License and Collaboration Arrangements."

Following on the success of our existing license and collaboration agreements, we are actively exploring new partnership opportunities globally. For details, see "Business – Our Development Strategies – Continue to seek and deepen strategic partnerships to extend the potential of our technology platforms and maximize the value of our pipeline." The timing and amount of upfront payments, milestone payments, royalties and other considerations in relation to our existing and future license and collaboration arrangements will have an impact on our results of operations.

Our Cost Structure

Our cost structure during the Track Record Period primarily consisted of costs and expenses in relation to R&D activities, administrative activities, and costs relating to financing activities.

Our costs and expenses were the largest component of our cost structure during the Track Record Period. Our costs and expenses related to research and development activities were significant as we advanced multiple drug development programs in various stages of the development life cycle. For the years ended December 31, 2021 and 2022, our costs and expenses in relation to R&D activities, which represented our cost of sales and research and development expenses, were RMB748.2 million and RMB1,122.8 million, respectively. Our cost of sales was incurred primarily in relation to our license and collaboration agreements with MSD and other licensing partners, and R&D services we provided to Kelun Group during the Track Record Period. Our cost of sales increased from RMB20.5 million for the year ended December 31, 2021 to RMB276.8 million for the year ended December 31, 2022, primarily attributable to the two license and collaboration agreements we entered into with MSD to develop SKB264 and SKB315, respectively.

Our research and development expenses primarily consisted of staff costs and trial and testing expenses, including third-party contracting costs with respect to the engagement of CROs, clinical trial sites, principal investigators and other service providers to support our R&D activities. Our staff costs remained relatively stable in 2021 and 2022. Our trial and testing expenses fluctuated based on the timing and progress of our clinical trials and preclinical studies. We expect to continue to incur significant research and development expenses as we move our pipeline assets towards the clinic.

We also recorded significant administrative expenses in our operations. For the years ended December 31, 2021 and 2022, our administrative expenses amounted to RMB96.2 million and RMB95.3 million, respectively, which primarily consisted of staff costs. Our administrative expenses decreased from 2021 to 2022 as we streamlined our workforce to increase operating efficiency. The decrease was partially offset by [**REDACTED**] incurred in 2022 relating to the engagement of agents, legal counsel and other professional service providers for the [**REDACTED**].

During the Track Record Period, our finance costs primarily consisted of interest expenses on interest-bearing borrowings from Kelun Pharmaceutical, and interest expenses relating to the Shares we issued to Series A Investors. For the years ended December 31, 2021 and 2022, our finance costs were RMB112.6 million and RMB148.8 million, respectively. A substantial portion of such costs are not expected to continue after [**REDACTED**], as (i) all of our borrowings from Kelun Pharmaceutical had been fully settled as of the Latest Practicable Date, of which RMB2.5 billion was settled by way of debt-to-equity swap and the remaining was settled by cash; and (ii) the Shares we issued to Series A Investors will be converted into ordinary Shares upon [**REDACTED**].

We expect our cost structure to evolve as we continue to develop and expand our business. As the preclinical studies and clinical trials of our drug candidates continue to progress and as we gradually bring them to commercialization, we expect to incur additional costs in relation to manufacturing, sales and marketing, and regulatory affairs, among other activities. We may also incur 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 borrowings from Kelun Pharmaceutical, payments received in accordance with license and collaboration agreements, and proceeds from our Series A Financing. We expect to fund our future operations primarily with existing cash and cash equivalents, payments received from our license and collaboration agreements, and [**REDACTED**] from the [**REDACTED**]. Upon the successful commercialization of one or more of our drug candidates, we expect to fund our operations in part with income generated from sales of our commercialized drug products. As our business continues to expand, we may require further funding through equity offerings, debt financing, license and collaboration arrangements, and other sources. Changes in our ability to fund our operations may affect our cash flow and results of operations. See also "Risk Factors – Risks Relating to Our Financial Position and Need for Additional Capital – We may need to obtain substantial additional financing to fund our operations and expansion, and if we fail to do so, we may be unable to complete the development and commercialization of our drug candidates."

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRSs requires our management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and various other factors, including expectations of future events, that are believed to be reasonable under the circumstances, from which our actual results may differ.

Set out below are a summary of the significant accounting policies, judgements and estimates which we believe are most important for understanding our results of operations and financial condition. See note 2 and 3 to the Accountants' Report set out in Appendix I to this document for a detailed description of our significant accounting policies, judgments and estimates.

Significant Accounting Policies

Revenue and Other Income

Income is classified by us as revenue when it arises from the sale of goods or the provision of services. Revenue is recognized when control over a product or service is transferred to the customer, at the amount of promised consideration to which our Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes.

Further details of our revenue and other income recognition policies are as follows:

Revenue from Contracts with Customers

Revenue from License and Collaboration Agreements

We grant licenses of our intellectual property (the "License") to our customers. The consideration for the License comprises a fixed element (the upfront payment) and variable elements (including but not limited to development milestones and sales-based royalties). The upfront fees are recognized as revenue when customers obtain rights to access the technology. Development milestone payments are included in the transaction price and recognized as revenue throughout the license period when it is highly probable that there will not be a subsequent reversal of a significant amount of revenue. Sales-based royalties are not included in the transaction price until customers make the sales.

Revenue from Provision of Research and Development Service

Research and development services are comprised of performance obligations which are capable of being distinct. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of the services.

For the research and development services that (i) the customer simultaneously receives and consumes the benefits provided by our performance as we perform; (ii) our performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (iii) our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date, we concluded that such services can be identified as a performance obligation satisfied over time. We use input methods to recognize revenue on the basis of our inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation.

Otherwise, revenue is recognized at a point in time when the customers accept and can benefit from such service.

Interest Income

Interest income is recognized as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

Government Grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that we will comply with the conditions attaching to them. Grants that compensate us for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate us for the cost of an asset are recognized as deferred income and subsequently recognized in profit or loss over the useful life of the assets.

Dividends

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

Research and Development Expenses

Research and development expenses comprise all expenses that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the process is technically and commercially feasible and we have sufficient resources and the intention to complete development.

Property, Plant and Equipment ("PPE")

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Machinery and Equipment	10 years
–	Furniture, fixtures and others	3 – 5 years
–	Vehicles	5 – 8 years
–	Leasehold improvements	3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is stated at cost less impairment losses. Cost comprises the purchase costs of the asset and the related construction and installation costs. Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation polices specified above. No depreciation is provided in respect of construction in progress.

Employee Benefits

Short-term Employee Benefits and Contributions to Defined Contribution Retirement Plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contribution to appropriate local defined contribution retirement schemes are recognized as an expense in profit or loss as incurred.

Share-based Payments

The fair value of share-based payment awards granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date with reference to the price per share in the latest equity financing transaction, taking into account the terms and conditions upon which the share-based payment awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares, the total estimated fair value of share-based payment awards is spread over the vesting period, taking into account the probability that the shares will vest.

During the vesting period, the number of shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior periods is charged/credited to the profit or loss for the period of the review with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of shares that vest (with a corresponding adjustment to the capital reserve).

Termination Benefits

Termination benefits are recognized at the earlier of when we can no longer withdraw the offer of those benefits and when we recognize restructuring costs involving the payment of termination benefits.

Interest-bearing Borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with our accounting policy for borrowing costs.

Shares Issued

Shares issued are classified as equity if they bear discretionary dividends, do not contain any obligations to deliver cash or other financial assets and do not require settlement in a variable number of our equity instruments. Discretionary dividends on such shares issued are recognized as distributions within equity.

A financial liability is recognized if we have the obligation to redeem any equity instruments issued on a specific date or at the option of the shareholders (including the options that are only exercisable in case of occurrence of certain contingent triggering events). The liability is recognized and measured at the present value of the exercise price.

Contract Assets and Contract Liabilities

A contract asset is recognized when we recognize revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 2(h)(i) to the Accountants' Report set out in the Appendix I to this document and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognized when the customer pays non-refundable consideration before we recognize the related revenue. A contract liability would also be recognized if we have an unconditional right to receive non-refundable consideration before we recognize the related revenue. In such cases, a corresponding receivable would also be recognized.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

Critical Judgments and Estimates

Research and Development Expenses

Research and development expenses incurred on our pipelines are 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 pipeline and the ability to measure reliably the expenditure during the development.

Research and development expenses which do not meet these criteria are expensed when incurred. Management will assess the progress of each of the research and development projects and determine the criteria met for capitalization. During the Track Record Period, our research and development expenditures incurred did not meet these capitalization principles for any products and were expensed as incurred.

Recognition of Deferred Tax Assets

Deferred tax assets in respect of tax losses carried forward and deductible temporary differences are recognized and measured based on the expected manner of realization or settlement of the carrying amount of the relevant assets and liabilities, using tax rates enacted or substantively enacted at the end of each Track Record Period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to our operating environment and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognized and hence the net profit in future years.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded during the Track Record Period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

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

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the years indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	For the year ended December 31,	
	2021	**2022**
	(RMB'000)	*(RMB'000)*
Revenue	32,322	803,933
Cost of sales	(20,525)	(276,828)
Gross profit	11,797	527,105
Other net income/(expense)	34,843	(4,368)
Administrative expenses	(96,174)	(95,303)
Research and development expenses	(727,670)	(845,984)
Loss from operations	(777,204)	(418,550)
Finance costs	(112,591)	(148,814)
Loss before taxation	(889,795)	(567,364)
Income tax	–	(48,735)
Loss for the year attributable to equity shareholders of the Company	(889,795)	(616,099)
Other comprehensive income for the year (after tax)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of an overseas subsidiary	(3,910)	13,988
Other comprehensive income for the year	(3,910)	13,988
Total comprehensive income for the year attributable to equity shareholders of the Company	(893,705)	(602,111)

Revenue

During the Track Record Period, our revenue consisted of (i) revenue from our license and collaboration agreements. See "Business – Our License and Collaboration Arrangements" for details; and (ii) revenue from the research and development services we provided to Kelun Group and other third parties. The following table sets forth the components of our revenue in absolute amounts and as percentages of the total revenue for the years indicated:

	For the year ended December 31,			
	2021		2022	
	(RMB'000)	%	*(RMB'000)*	%
Revenue from license and collaboration agreements	4,463	13.8	785,902	97.8
Revenue from provision of research and development services	27,859	86.2	18,031	2.2
Total	**32,322**	**100.0**	**803,933**	**100.0**

The significant increase in our revenue from 2021 to 2022 was primarily due to the increase of revenue from the two license and collaboration agreements we entered into with MSD to develop SKB264 and SKB315.

Cost of Sales

During the Track Record Period, our cost of sales was primarily related to the R&D activities we conducted in accordance with our license and collaboration agreements, and the R&D services we provided to Kelun Group and other third parties. Our cost of sales primarily consisted of (i) employee salaries and benefits for R&D staff; (ii) trial and testing expenses, primarily in relation to the engagement of CROs, clinical trial sites, principal investigators and other service providers; (iii) costs of raw materials and other consumables; (iv) depreciation and amortization expenses in connection with the machinery and equipment used; (v) tax and surcharge; and (vi) others, including office expenses and other miscellaneous expenses. The following table sets forth a breakdown of our cost of sales in absolute amounts and as percentages of the total cost of sales for the years indicated.

	For the year ended December 31,			
	2021		2022	
	(RMB'000)	%	*(RMB'000)*	%
Staff costs	13,063	63.6	69,560	25.1
Trial and testing expenses	1,846	9.0	157,907	57.0
Raw materials	745	3.6	22,123	8.0
Depreciation and amortization	603	2.9	9,603	3.5
Tax and surcharge	2,647	12.9	1,962	0.7
Others	1,621	8.0	15,673	5.7
Total	**20,525**	**100.0**	**276,828**	**100.0**

Gross Profit and Gross Profit Margin

Gross profit represents revenue less cost of sales. Gross profit margin represents gross profit as a percentage of revenue. For the years ended December 31, 2021 and 2022, our gross profits were RMB11.8 million and RMB527.1 million, respectively. For the same years, our gross profit margins were 36.5% and 65.6%, respectively.

Other Net Income/(Expense)

During the Track Record Period, our other net income or expense primarily consisted of (i) net foreign exchange gains or losses, which primarily reflected the increased or decreased value of assets or liabilities denominated in foreign currencies we hold resulting from fluctuations in exchange rate; (ii) government grants, mainly representing government subsidies from state and local government authorities in relation to our R&D activities and construction of our R&D and manufacturing facilities, which were one-off in nature and may vary from period to period; (iii) net loss or gain on disposal of property, plant and equipment; (iv) interest income from bank deposits; (v) net realized and unrealized gain on financial assets measured at fair value through profit or loss ("FVPL"); and (vi) others. The following table sets forth a breakdown of our other net income/(expense) in absolute amounts and as percentages of the total other net income/(expense) for the years indicated.

	For the year ended December 31,			
	2021		2022	
	(RMB'000)	%	*(RMB'000)*	%
Interest income from bank deposits	806	2.3	1,417	(32.4)
Net foreign exchange gains/(losses)	16,877	48.4	(31,944)	731.3
Government grants	16,716	48.0	20,254	(463.7)
Net (loss)/gain on disposal of property, plant and equipment	(5)	(0.0)	5,418	(124.0)
Net realized and unrealized gain on financial assets measured at FVPL	359	1.0	513	(11.7)
Others	90	0.3	(26)	0.5
Total	**34,843**	**100.0**	**(4,368)**	**100.0**

Administrative Expenses

During the Track Record Period, our administrative expenses primarily consisted of (i) staff costs, representing employee salaries and benefits, including the grant of restricted share units, for our administrative personnel; (ii) consulting service fees paid to agents, independent financial advisor and other professional service providers in the ordinary course of our business; (iii) depreciation and amortization expenses mainly associated with our office and equipment for administrative purposes; (iv) office and travel expenses in relation to our general operations; (v) [**REDACTED**] incurred in connection with the [**REDACTED**]; (vi) maintenance and repair expenses for office and equipment; and (vii) other miscellaneous expenses. The following table sets forth a breakdown of our administrative expenses in absolute amounts and as percentages of the total administrative expenses for the years indicated.

	For the year ended December 31,			
	2021		2022	
	(RMB'000)	%	*(RMB'000)*	%
Staff costs	74,258	77.2	62,436	65.5
Consulting service fees	1,497	1.6	6,139	6.4
Depreciation and amortization expenses	4,480	4.7	7,727	8.1
Office and travel expenses	5,812	6.0	3,617	3.8
[**REDACTED**]	–	–	9,288	9.7

	For the year ended December 31,			
	2021		2022	
	(RMB'000)	%	*(RMB'000)*	%
Maintenance and repair expenses	5,194	5.4	2,272	2.4
Others	4,933	5.1	3,824	4.1
Total	**96,174**	**100.0**	**95,303**	**100.0**

Research and Development Expenses

During the Track Record Period, our research and development expenses primarily consisted of (i) staff costs, representing employee salaries and benefits, including the grant of restricted share units, for our R&D personnel; (ii) trial and testing expenses, primarily in relation to the engagement of CROs, clinical trial sites, principal investigators and other service providers; (iii) raw materials costs in relation to research and development of our drug candidates; (iv) depreciation, amortization and short-term lease expenses, primarily associated with machinery and equipment used in our research and development activities; and (v) others, such as utilities, maintenance and repair costs, and expenses incurred for the application and maintenance of intellectual property rights in relation to our R&D activities. The following table sets forth a breakdown of our research and development expenses in absolute amounts and as percentages of the total research and development expenses for the years indicated.

	For the year ended December 31,			
	2021		2022	
	(RMB'000)	%	*(RMB'000)*	%
Staff costs	262,133	36.0	267,288	31.6
Trial and testing expenses	289,599	39.8	401,614	47.5
Raw materials	83,877	11.5	80,857	9.6
Depreciation, amortization and short-term lease expenses	57,288	7.9	48,754	5.8
Others	34,773	4.8	47,471	5.5
Total	**727,670**	**100.0**	**845,984**	**100.0**

Finance Costs

During the Track Record Period, our finance costs primarily consisted of (i) interest expenses on our borrowings from Kelun Pharmaceutical. For details of these borrowings, see "– Material Related Party Transactions"; (ii) interest expenses on financial instruments issued to investors, representing the Shares issued to Series A Investors; (iii) interest expenses on lease liabilities; and (iv) interest expenses on bank loans. We capitalized the interest expenses incurred for the construction in progress. The following table sets forth a breakdown of our finance costs in absolute amounts and as percentages of the total finance costs for the years indicated.

	For the year ended December 31,			
	2021		2022	
	(RMB'000)	%	*(RMB'000)*	%
Interest expenses on borrowings from Kelun Pharmaceutical	90,209	80.1	108,301	72.8
Interest expenses on financial instruments issued to investors	27,295	24.2	40,943	27.5
Interest expenses on lease liabilities	164	0.1	5,605	3.8
Interest expenses on bank loans	1,574	1.5	2,893	1.9
Less: interest expenses capitalized into construction in progress	(6,651)	(5.9)	(8,928)	(6.0)
Total	**112,591**	**100.0**	**148,814**	**100.0**

Income Tax

During the Track Record Period, our income tax consisted of current tax and withholding tax. For the years ended December 31, 2021 and 2022, we recorded income tax of nil and RMB48.7 million, respectively. Our Directors confirm that during the Track Record Period, we had made all the required tax filings with the relevant tax authorities in the PRC and we are not aware of any outstanding or potential disputes with such tax authorities.

PRC

Effective from January 1, 2008, the PRC statutory income tax rate is 25% under the EIT Law. Our subsidiaries in the PRC are subject to PRC income tax at 25% unless otherwise specified.

According to the EIT Law and its relevant regulations, entities that qualified as High and New Technology Enterprise are entitled to a preferential income tax rate of 15%. We obtained our certificate of High and New Technology Enterprise on December 3, 2020 and are entitled to preferential income tax of 15% from 2020 to 2022.

United States

Pursuant to U.S. income tax laws and regulations and the Agreement between the Government of the People's Republic of China and the United States of America for Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《中華人民共和國政府和美利堅合眾國政府關於對所得避免雙重徵稅和防止偷漏稅的協定》), we are subject to a 10% U.S. federal withholding tax, applied to certain payments made to us pursuant to the respective license and collaboration agreements.

Loss for the Year

For the years ended December 31, 2021 and 2022, we had net losses of RMB889.8 million and RMB616.1 million, respectively.

RESULTS OF OPERATIONS

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

Revenue

Our revenue increased significantly from RMB32.3 million for the year ended December 31, 2021 to RMB803.9 million for the year ended December 31, 2022, primarily due to the increase of revenue from the two license and collaboration agreements we entered into with MSD to develop SKB264 and SKB315.

Cost of Sales

Our cost of sales increased significantly from RMB20.5 million for the year ended December 31, 2021 to RMB276.8 million for the year ended December 31, 2022, primarily in relation to the R&D activities we conducted in 2022 in accordance with our license and collaboration agreements with MSD to develop SKB264 and SKB315.

Gross Profit and Gross Profit Margin

Our gross profit increased significantly from RMB11.8 million for the year ended December 31, 2021 to RMB527.1 million for the year ended December 31, 2022. Accordingly, our overall gross profit margin increased significantly from 36.5% for the year ended December 31, 2021 to 65.6% for the year ended December 31, 2022, primarily because of our license and collaboration agreements with MSD.

Other Net Income/(Expense)

We recorded other net income of RMB34.8 million for the year ended December 31, 2021, as compared to other net expenses of RMB4.4 million for the year ended December 31, 2022, which was primarily because we recorded net foreign exchange losses of RMB31.9 million for the year ended December 31, 2022, as compared to net foreign exchange gains of RMB16.9 million for the year ended December 31, 2021, as a result of the fluctuation in exchange rate of Renminbi against U.S. dollars.

Administrative Expenses

Our administrative expenses decreased by 0.9% from RMB96.2 million for the year ended December 31, 2021 to RMB95.3 million for the year ended December 31, 2022, which was primarily due to a decrease of RMB11.8 million in staff costs as we streamlined our workforce to increase operating efficiency, partially offset by an increase of RMB9.3 million in [**REDACTED**] incurred in relation to the [**REDACTED**].

Research and Development Expenses

Our research and development expenses increased by 16.3% from RMB727.7 million for the year ended December 31, 2021 to RMB846.0 million for the year ended December 31, 2022, primarily due to an increase of RMB112.0 million in trial and testing expenses, which was in line with the progress of our R&D activities.

Finance Costs

Our finance costs increased by 32.2% from RMB112.6 million for the year ended December 31, 2021 to RMB148.8 million for the year ended December 31, 2022, which was primarily due to (i) an increase of RMB18.1 million in interest expenses on our borrowings from Kelun Pharmaceutical, mainly associated with an increase of borrowings from Kelun Pharmaceutical; and (ii) an increase of RMB13.6 million in interest expenses on financial instruments issued to investors, following our issuance of Shares to Series A Investors in 2021.

Income Tax

We recorded income tax of RMB48.7 million for the year ended December 31, 2022, as compared to nil for the year ended December 31, 2021, primarily attributable to the U.S. federal withholding tax applied to certain payments made to us in 2022 pursuant to our license and collaboration agreements with MSD. We did not incur such tax expenses in 2021.

Loss for the Year

As a result of the foregoing, our loss for the year decreased by 30.8% from RMB889.8 million for the year ended December 31, 2021 to RMB616.1 million for the year ended December 31, 2022.

DESCRIPTION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth a summary of our consolidated statements of financial position as of the dates indicated.

	As of December 31,	
	2021	2022
	(RMB'000)	*(RMB'000)*
Non-current assets		
Property, plant and equipment	432,179	530,349
Right-of-use assets	41,987	117,475
Intangible assets	486	3,179
Other non-current assets	39,965	9,826
Total non-current assets	**514,617**	**660,829**
Current assets		
Inventories and other contract costs	78,707	52,636
Trade and other receivables	78,525	98,659
Amounts due from related parties	22,688	61,800
Restricted deposits	36,628	26,261
Cash and cash equivalents	81,793	92,960
Total current assets	**298,341**	**332,316**
Current liabilities		
Trade and other payables	185,256	243,405
Amounts due to related parties	221,912	206,908
Financial instruments issued to investors	539,078	580,021
Contract liabilities	109,038	163,976
Bank loans and other borrowings	2,387,967	2,890,787
Lease liabilities	1,663	82,264
Total current liabilities	**3,444,914**	**4,167,361**
Net current liabilities	**(3,146,573)**	**(3,835,045)**

	As of December 31,	
	2021	2022
	(RMB'000)	*(RMB'000)*
Total assets less current liabilities	**(2,631,956)**	**(3,174,216)**
Non-current liabilities		
Lease liabilities	1,252	41,292
Deferred income	10,678	10,678
Total non-current liabilities	**11,930**	**51,970**
Net liabilities	**(2,643,886)**	**(3,226,186)**

Property, Plant and Equipment

During the Track Record Period, our property, plant and equipment primarily consisted of (i) construction in progress, (ii) machinery and equipment, (iii) furniture, fixtures, and others, and (iv) leasehold improvements. Our property, plant and equipment increased by 22.7% from RMB432.2 million as of December 31, 2021 to RMB530.3 million as of December 31, 2022, primarily due to (i) an increase of RMB66.2 million in construction in progress primarily in relation to the construction of our R&D and manufacturing facilities, and office space; (ii) an increase of RMB11.2 million in leasehold improvements for our existing manufacturing facilities; (iii) an increase of RMB10.7 million in furniture, fixtures and others; and (iv) an increase of RMB10.3 million in machinery and equipment as we purchased new equipment to support our R&D activities.

Right-of-use Assets

During the Track Record Period, our right-of-use assets were primarily related to the leases of land use rights, properties and machinery and equipment used in our operations. Our right-of-use assets increased significantly from RMB42.0 million as of December 31, 2021 to RMB117.5 million as of December 31, 2022, primarily due to an increase of RMB64.6 million in machinery and equipment and an increase of RMB12.9 million in properties, as we recorded right-of-use assets on our balance sheet subsequent to January 1, 2022 in connection with the new three-year lease agreements with Kelun Pharmaceutical, which became effective on January 1, 2022.

Other Non-current Assets

During the Track Record Period, our other non-current assets mainly represented prepayments we paid to suppliers for the construction of R&D and manufacturing facilities and purchase of equipment. Our other non-current assets decreased by 75.4% from RMB40.0 million as of December 31, 2021 to RMB9.8 million as of December 31, 2022, in line with the progress of our construction projects.

Inventories and Other Contract Costs

During the Track Record Period, our inventories and other contract costs consisted of (i) raw materials and low-value consumables purchased for our R&D activities and day-to-day operations; and (ii) other contract costs, primarily representing costs incurred for certain R&D activities we conducted in support of SKB264's clinical development plan in accordance with the relevant license and collaboration agreement with MSD, for which we had not yet completed the relevant performance obligation to recognize revenue. The following table sets forth the details of our inventories and other contract costs as of the dates indicated.

	As of December 31,	
	2021	**2022**
	(RMB'000)	*(RMB'000)*
Inventories		
Raw materials	45,590	48,643
Low-value consumables	5,134	3,993
Contract costs	27,983	–
Total	**78,707**	**52,636**

Our inventories and other contract costs decreased by 33.1% from RMB78.7 million as of December 31, 2021 to RMB52.6 million as of December 31, 2022, primarily due to a decrease of RMB28.0 million in other contract costs, mainly because we fulfilled the performance obligations and recognized revenue under the relevant license and collaboration agreement with MSD.

The following table sets forth an aging analysis of our inventories and other contract costs as of the dates indicated.

	As of December 31,	
	2021	**2022**
	(RMB'000)	*(RMB'000)*
Within 1 year	67,978	37,625
1 to 2 years	5,676	10,210
2 to 3 years	5,053	2,268
Over 3 years	–	2,533
Total	**78,707**	**52,636**

As of April 30, 2023, RMB22.9 million, or 43.6%, of our inventories as of December 31, 2022, had been consumed.

Our inventories with an age over three years increased by RMB2.5 million from December 2021 to December 2022, primarily because we procured a higher amount of durable low-value consumables in 2019. We do not foresee any significant recoverability issue with our inventories, and do not believe provision for impairment is necessary, considering that (i) our inventories are consisted exclusively of raw materials and low-value consumables for our R&D activities and day-to-day operations, a higher utilization of which is foreseeable in light of the rapid advancement of our pipeline and the fulfillment of license and collaboration agreements we have entered into; (ii) our inventories aged within one year accounted for 71.5% of the total inventories and other contract costs as of December 31, 2022; and (iii) we have taken stringent internal measures to enhance the inventory management. For example, we have appointed dedicated personnel who monitor aging conditions and utilization of our inventories to identify obsolete and slow-moving raw materials, if any, so that we can promptly take appropriate measures and adjust our procurement plan accordingly.

Trade and Other Receivables

During the Track Record Period, our trade and other receivables primarily consisted of (i) trade receivables mainly in relation to our provision of research and development services to third parties; (ii) other receivables, mainly representing social insurance contributions we made on behalf of our employees; (iii) value-added tax ("VAT") recoverable in connection with the procurement of raw materials, third-party services, and machinery and equipment; and (iv) prepayments we made to CROs and other third-party service providers and suppliers of raw materials relating to our various preclinical studies and clinical trials. The following table sets forth the details of our trade and other receivables as of the dates indicated.

	As of December 31,	
	2021	**2022**
	(RMB'000)	*(RMB'000)*
Trade receivables	146	–
Other receivables	2,165	1,846
Value-added tax ("VAT") recoverable	45,557	40,785
Prepayments	30,657	56,028
Total	**78,525**	**98,659**

Our trade and other receivables increased by 25.6% from RMB78.5 million as of December 31, 2021 to RMB98.7 million as of December 31, 2022, primarily due to an increase of RMB25.4 million in prepayments in line with the progress of our R&D activities.

As of April 30, 2023, RMB1,791 thousand, or 97.0%, of our other receivables as of December 31, 2022 had been subsequently settled.

The following table sets forth an aging analysis of our trade receivables presented based on the invoice date and net of loss allowance as of the dates indicated.

	As of December 31,	
	2021	**2022**
	(RMB'000)	*(RMB'000)*
Within 3 months (inclusive)	146	–
Total	146	–

Amounts Due From Related Parties

During the Track Record Period, our amounts due from related parties primarily represented amounts due from Kelun Group in relation to our provision of R&D services and transfer of R&D projects to Kelun Group. Our amounts due from related parties increased significantly from RMB22.7 million as of December 31, 2021 to RMB61.8 million (all of which was trade related) as of December 31, 2022, primarily in relation to the transfer of cell therapy programs to Kelun Group in 2022. For details, see "– Material Related Party Transactions."

As of April 30, 2023, RMB47.6 million, or 77.0% of our amounts due from related parties as of December 31, 2022 had been subsequently settled.

Restricted Deposits

During the Track Record Period, our restricted deposits mainly represented bank deposits pledged as collateral for the issuance of bills payable. We had restricted deposits of RMB36.6 million and RMB26.3 million as of December 31, 2021 and 2022, respectively, due to the settlement of our bills payable in 2022.

Cash and Cash Equivalents

During the Track Record Period, our cash and cash equivalents consisted of cash at bank, net of restricted bank deposits. We had cash and cash equivalents of RMB81.8 million and RMB93.0 million as of December 31, 2021 and 2022, respectively. The increase in our cash and cash equivalents primarily reflected the receipt of payments pursuant to our license and collaboration agreements with MSD for SKB264 and SKB315 in 2022.

As part of our cash management policy, we believe that we can make better use of our cash by utilizing wealth management products to better utilize our idle cash without interfering with our business operations or capital expenditures. During the Track Record Period, we purchased wealth management products issued by various commercial banks in the PRC from time to time, with a floating return being paid together with the principal on the maturity date, which were recognized as financial assets measured at FVPL. As of December 31, 2022 and April 30, 2023, the balances of our financial assets measured at FVPL were zero and RMB400.0 million, respectively.

To monitor and control the investment risks associated with our financial assets at FVPL, we have adopted a comprehensive set of internal policies and guidelines to manage our investment in financial assets at FVPL. We make investment decisions based on our estimated capital requirements and our annual budget, taking into account the duration, expected returns and risks of the wealth management product. We generally limit our purchases to low-risk and short-term products which are redeemable on demand from reputable commercial banks. Our finance department is responsible for proposing, analyzing and evaluating potential investment in wealth management products and led by our chief financial officer, Mr. ZHOU Zejian, who has over 15 years of experience in the financial industry. Investment proposals are subject to review and approval by our general manager, and approval of the Board or general meetings of shareholders if the investment amounts exceed thresholds specified in our investment policy.

After [**REDACTED**], we may continue to purchase low-risk wealth management products with a short maturity period based on our operational needs, strictly in accordance with our internal policies and measures and the requirements under Chapter 14 of the Listing Rules.

Trade and Other Payables

During the Track Record Period, our trade and other payables consisted of (i) trade payables in connection with our procurement of raw materials, consumables, and third-party services; (ii) other payables, mainly representing other payables in connection with our day-to-day operations; (iii) bills payable primarily due to suppliers for the construction of our R&D and manufacturing facilities; (iv) accrued payroll and benefits, mainly including salaries and other welfare payables to our employees; and (v) other taxes payable. The following table sets forth the details of our trade and other payables as of the dates indicated.

	As of December 31,	
	2021	2022
	(RMB'000)	*(RMB'000)*
Trade payables	98,341	123,259
Other payables	6,029	3,059
Bills payable	33,641	27,777
Accrued payroll and benefits	44,723	86,608
Other taxes payable	2,522	2,702
Total	**185,256**	**243,405**

Our trade and other payables increased by 31.4% from RMB185.3 million as of December 31, 2021 to RMB243.4 million as of December 31, 2022, primarily due to (i) an increase of RMB41.9 million in accrued payroll and benefits primarily due to the increase in salaries and year-end bonuses payable by us to our employees at the end of 2022; and (ii) an increase of RMB24.9 million in trade payables associated with the increase of procurement of raw materials and third-party services for our R&D activities.

The following table sets forth an aging analysis of our trade payables and bills payable presented based on the invoice date as of the dates indicated.

	As of December 31,	
	2021	2022
	(RMB'000)	*(RMB'000)*
Within 1 year	131,142	149,663
1 to 2 years	346	642
2 to 3 years	320	307
More than 3 years	174	424
Total	**131,982**	**151,036**

As of April 30, 2023, RMB61.4 million, or 49.8%, of our trade payables as of December 31, 2022 had been subsequently settled.

Amounts Due to Related Parties

During the Track Record Period, our amounts due to related parties primarily represented amounts due to Kelun Group. Our amounts due to related parties decreased by 6.8% from RMB221.9 million as of December 31, 2021 to RMB206.9 million (RMB176.4 million of which was trade related) as of December 31, 2022, primarily as we reduced the procurement of R&D services from Kelun Group. For further details, see "– Material Related Party Transactions."

Financial Instruments Issued to Investors

During the Track Record Period, our financial instruments issued to investors represented the Shares issued to Series A Investors. We recorded financial instruments issued to investors of RMB539.1 million and RMB580.0 million as of December 31, 2021 and 2022, respectively.

Shares issued to Series A Investors are redeemable upon the occurrence of certain events stipulated in the Series A Share Subscription Agreement, which give rise to financial liabilities that are measured at the transaction price at initial recognition, and subsequently at amortized cost at an effective interest rate of 8%. For a discussion of our issuance of financial instruments to investors, see "History and Corporate Structure" in this document. For further information regarding our financial instruments issued to investors, see note 22 to the Accountants' Report set out in Appendix I to this document.

Contract Liabilities

During the Track Record Period, our contract liabilities primarily represented amounts we received from MSD before we had reached the relevant milestones as contemplated in the relevant license and collaboration agreements. We recorded contract liabilities of RMB109.0 million and RMB164.0 million as of December 31, 2021 and 2022, respectively. The increase of our contract liabilities at the end of 2022 compared to 2021 was primarily the result of the payments we received from MSD pursuant to the relevant license and collaboration agreements.

As of April 30, 2023, RMB160.5 million, or 97.9%, of our contract liabilities as of December 31, 2022 had been subsequently recognized as revenue.

Bank Loans and Other Borrowings

During the Track Record Period, we obtained certain bank loans from certain commercial banks in the PRC and other borrowings from Kelun Pharmaceutical for supplementing our working capital. The following table sets forth the details of our bank loans and other borrowings as of the dates indicated.

	As of December 31,	
	2021	**2022**
	(RMB'000)	*(RMB'000)*
Current		
Guaranteed bank loans	30,000[(1)]	100,000[(2)]
Other borrowings from Kelun Pharmaceutical	2,357,967	2,790,787
Total	**2,387,967**	**2,890,787**

Notes:

(1) A short-term bank loan with a principal amount of RMB30.0 million and an effective interest rate of 3.85% per annum. This bank loan was secured by the actual controller of our Company, Mr. Liu Gexin. We fully repaid this loan in February 2022.

(2) A short-term bank loan with a principal amount of RMB100.0 million and an effective interest rate of 3.75% per annum. This bank loan was secured by our Controlling Shareholder Kelun Pharmaceutical. We fully repaid this loan in February 2023.

As of December 31, 2021 and 2022, the outstanding balances of our bank loans were RMB30.0 million and RMB100.0 million, respectively.

The outstanding balances of our borrowings from Kelun Pharmaceutical were RMB2,358.0 million and RMB2,790.8 million as of December 31, 2021 and 2022, respectively. For details, see "– Material Related Party Transactions" and note 29 to the Accountants' Report in Appendix I to this document.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash during the Track Record Period were to fund our research and development activities, the construction of our research and development and manufacturing facilities, and purchase of equipment, machinery and intangible assets. We recorded net cash used in operating activities of RMB485.9 million and RMB270.8 million for the years ended December 31, 2021 and 2022, respectively. During the Track Record Period, we financed our operations primarily through borrowings from Kelun Pharmaceutical, payments received in accordance with our license and collaboration agreements, and proceeds from our Series A Financing. As of April 30, 2023, the latest practicable date for determining our indebtedness, we had cash and cash equivalents of RMB1,342.2 million. As of April 30, 2023, our unutilized banking facilities amounted to RMB638.5 million.

Current Assets and Liabilities

	As of December 31,		As of April 30,
	2021	2022	2023
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
			(Unaudited)
Current assets			
Inventories and other contract costs	78,707	52,636	79,224
Trade and other receivables	78,525	98,659	201,836
Amounts due from related parties	22,688	61,800	19,483
Financial assets measured at FVPL	–	–	400,000
Restricted deposits	36,628	26,261	40,373
Cash and cash equivalents	81,793	92,960	1,342,166
Total current assets	**298,341**	**332,316**	**2,083,082**

	As of December 31,		As of April 30,
	2021	2022	2023
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
			(Unaudited)
Current liabilities			
Trade and other payables	185,256	243,405	251,718
Amounts due to related parties	221,912	206,908	38,986
Financial instruments issued to investors	539,078	580,021	1,952,303
Contract liabilities	109,038	163,976	747,711
Bank loans and other borrowings	2,387,967	2,890,787	–
Lease liabilities	1,663	82,264	40,313
Total current liabilities	**3,444,914**	**4,167,361**	**3,031,031**
Net current liabilities	**(3,146,573)**	**(3,835,045)**	**(947,949)**

We recorded net current liabilities during the Track Record Period primarily because we invested significant capital into the research and development of our extensive drug pipeline, and building up our technology platforms, R&D and manufacturing facilities and other capabilities to complement and support our business. These cash-intensive investments were financed in part through borrowings from Kelun Pharmaceutical and our Series A Financing, which were recorded as current liabilities on our balance sheet, and contributed to our net current liability position historically.

Our net current liabilities increased from RMB3,146.6 million as of December 31, 2021 to RMB3,835.0 million as of December 31, 2022, primarily attributable to (i) an increase of RMB502.8 million in bank loans and other borrowings to supplement our working capital; (ii) an increase of RMB80.6 million in current lease liabilities in connection with the new three-year lease agreements with Kelun Pharmaceutical; (iii) an increase of RMB58.1 million in trade and other payables, primarily due to the increase in salaries and year-end bonuses payable by us to our employees at the end of 2022 and the procurement of raw materials and third-party services for our R&D activities; (iv) an increase of RMB54.9 million in contract liabilities, representing amounts we received from MSD before we had reached the relevant milestones in our provision of research and development services; and (v) an increase of RMB40.9 million in financial instruments issued to investors, partially offset by (i) an increase of RMB39.1 million in amounts due from related parties, primarily in relation to the transfer of cell therapy programs to Kelun Group in 2022; and (ii) an increase of RMB20.1 million in trade and other receivables, primarily due to the increase of prepayments in line with the progress of our R&D activities. We recorded a decrease of RMB26.1 million in inventories and other contract costs under the current assets as of December 31, 2022, compared to December 31, 2021, mainly due to the decrease in other contract costs, as we fulfilled the performance obligations and recognized revenue in relation to certain R&D services we provided.

Our net current liabilities decreased from RMB3,835.0 million as of December 31, 2022 to RMB947.9 million as of April 30, 2023, primarily because our borrowings from Kelun Pharmaceutical were fully settled, of which RMB2.5 billion was settled by way of debt-to-equity swap and the remaining was settled by cash. For details, see "– Liquidity and Capital Resources – Working Capital Sufficiency."

We expect our net current liabilities position to improve significantly upon [**REDACTED**], as we recorded RMB1,952.3 million in financial instruments issued to investors as of April 30, 2023, which were attributable to the shares with preferential rights we issued to the Pre-[**REDACTED**] Investors and contributed to our net current liability position historically. Such shares will be converted into ordinary Shares upon [**REDACTED**], after which they will no longer be recorded as current liabilities on our statement of financial position. See "– Liquidity and Capital Resources – Working Capital Sufficiency" for details on our working capital sufficiency for at least the next 12 months from the date of this document. Going forward, we will closely monitor our liquidity position and maintain an adequate level of cash and cash equivalents to finance our operations and mitigate the impact of cash flow fluctuations.

Working Capital Sufficiency

Although we recorded significant net current liabilities during the Track Record Period, our Directors are of the view that we have sufficient working capital to cover at least 125% of our costs, including research and development expenses and administrative expenses (including any production costs), for at least the next 12 months from the date of this document, primarily for the reasons set out below:

- *Settlement of borrowings from Kelun Pharmaceutical*. We had borrowings from Kelun Pharmaceutical of RMB2,358.0 million and RMB2,790.8 million, respectively, as of December 31, 2021 and 2022. We used such borrowings to support our operations. Pursuant to a share subscription and debt-to-equity swap agreement between us, Kelun Pharmaceutical and the other then Shareholders on January 3, 2023, we settled RMB2.5 billion of the outstanding balance of such borrowings by issuing equity to Kelun Pharmaceutical. As of the Latest Practicable Date, the remaining balance of our borrowings from Kelun Pharmaceutical had been repaid in full by cash. Primarily as a result of this debt-to-equity swap, our net current liabilities decreased to RMB947.9 million as of April 30, 2023. For further details, see "History and Corporate Structure – Corporate History – Establishment and Major Shareholding Changes of Our Company – 4. Series B Financing – Share Subscription by Kelun Pharmaceutical" and "– Material Related Party Transactions."

- *Cash generated from our operations*. We plan to fund our future operations primarily with existing cash and cash equivalents, payments received from our license and collaboration agreements, and [**REDACTED**] from the [**REDACTED**]. In particular, we have entered into nine out-license agreements. As of April 30, 2023, we had received over US$343.4 million of upfront, milestone and other payments arising from such agreements. Subject to the achievement of specified milestones and other terms set forth in the respective agreements (including termination clauses), we are entitled to future payments and intend to utilize them to fund our operations. See also "Business – Our License and Collaboration Arrangements." Upon the successful commercialization of one or more of our drug candidates, we expect to fund our operations in part with income generated from sales of our commercialized drug products. We expect to receive conditional marketing approval from the NMPA for A167 (PD-L1 mAb), our first innovative drug in NDA registration stage, in the second half of 2023 or the first half of 2024.

- *Conversion of Shares with preferential rights upon* [**REDACTED**]. As of April 30, 2023, we recorded RMB1,952.3 million in financial instruments issued to investors, which were attributable to the shares with preferential rights we issued to the Pre-[**REDACTED**] Investors and contributed to our net current liability position historically. Such shares will be converted into ordinary Shares upon [**REDACTED**], after which they will no longer be recorded as current liabilities on our statement of financial position.

- *Cash burn rate*. Our cash burn rate refers to the average monthly amount of net cash used in operating activities, payment for property, plant and equipment and payment for intangible assets. We estimate that we will receive [**REDACTED**] of approximately HK$[2,709.0] million in the [**REDACTED**], and assuming an [**REDACTED**] of HK$[85.0] per Share, being the [**REDACTED**] of the indicative [**REDACTED**] range stated in this document. Assuming an average cash burn rate going forward of 1.0 times the level in the years ended December 31, 2021 and 2022, we estimate that our cash and cash equivalents as of April 30, 2023 will be able to maintain our financial viability for over 36 months from April 30, 2023, without taking into account 5.0% of the estimated [**REDACTED**] from the [**REDACTED**] (namely, the portion allocated for our working capital and other general corporate purposes); or, we estimate we will be able to maintain our financial viability for over 39 months from April 30, 2023, if we take into account 5.0% of the estimated [**REDACTED**] from the [**REDACTED**] (namely, the portion allocated for our working capital and other general corporate purposes).

Our Directors confirm that there has not been any material default on our part in the payment of trade and non-trade payables and borrowings, or breaches of covenants during the Track Record Period and up to the date of this document.

Cash Flows

The following table sets forth the components of our consolidated statements of cash flows for the years indicated:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Operating cash flows before movements in working capital	(765,025)	(305,362)
Changes in working capital	279,083	34,515
Tax paid	–	–
Net cash used in operating activities	(485,942)	(270,847)
Net cash used in investing activities	(94,384)	(32,150)
Net cash generated from financing activities	647,316	313,452
Net increase in cash and cash equivalents	66,990	10,455
Cash and cash equivalents at beginning of year	16,189	81,793
Effect of foreign exchange rate changes	(1,386)	712
Cash and cash equivalents at the end of year	81,793	92,960

Net Cash Used in Operating Activities

For the year ended December 31, 2022, we had net cash used in operating activities of RMB270.8 million, which was primarily attributable to our loss before taxation of RMB567.4 million adjusted by certain non-cash and working capital items, including (i) positive adjustments, which primarily included finance costs of RMB148.8 million, depreciation of right-of-use assets of RMB41.4 million, an increase of RMB50.6 million in trade and other payables, net foreign exchange losses of RMB31.9 million, a decrease of RMB26.1 million in inventories and other contract costs, depreciation of property, plant and equipment of RMB23.3 million, and equity-settled share-based payment expenses of RMB19.8 million, and (ii) negative adjustments, which primarily included an increase of RMB21.0 million in amounts due from related parties, an increase of RMB20.1 million in trade and other receivables, and a decrease of RMB17.6 million in amounts due to related parties.

For the year ended December 31, 2021, our net cash used in operating activities was RMB485.9 million, which was primarily attributable to our loss before taxation of RMB889.8 million adjusted by certain non-cash and working capital items, including (i) positive adjustments, which primarily included an increase of RMB173.8 million in amounts due to related parties, finance costs of RMB112.6 million, an increase of RMB109.0 million in contract liabilities, and an increase of RMB90.7 million in trade and other payables, and (ii) negative adjustments, which primarily included an increase of RMB37.3 million in inventories and other contract costs, an increase of RMB36.6 million in restricted bank deposits, an increase of RMB20.8 million in amounts due from related parties, and net foreign exchange gains of RMB16.9 million.

The negative operating cash flows we experienced during the Track Record Period primarily resulted from our cash-intensive research and development activities, while our drug candidates had not yet been approved or commercialized. For the years ended December 31, 2021 and 2022, our costs and expenses in relation to R&D activities, which represented our cost of sales and research and development expenses, were RMB748.2 million and RMB1,122.8 million, respectively.

We expect to generate income from sales of our drug products upon their successful commercialization, which will improve our operating cash flows. Subject to regulatory communications and marketing approval, we expect to launch our Core Products, SKB264 and A166, and A140 in the China market in the second half of 2024 or the first half of 2025. Furthermore, we are entitled to future payments under the out-license agreements we have entered into, which we also intend to utilize to fund our operations. See also "Business – Our License and Collaboration Arrangements." In addition, we will continue to implement comprehensive measures to effectively control our operating costs and better utilize our idle cash. For example, we have set up a comprehensive budget management system covering all types of costs and expenses incurred in our daily operations, and strictly manage our budgets at the project and business department levels.

Net Cash Used in Investing Activities

For the year ended December 31, 2022, we had net cash used in investing activities of RMB32.2 million, primarily attributable to (i) the payment for investment in financial assets measured at FVPL of RMB370.0 million, and (ii) the payment for the purchase of property, plant and equipment of RMB33.7 million, partially offset by the proceeds from redemption of financial assets measure at fair value through profit or loss of RMB370.5 million.

For the year ended December 31, 2021, our net cash used in investing activities was RMB94.4 million, primarily attributable to (i) the purchase of property, plant and equipment of RMB94.1 million; and (ii) the payment for investment in financial assets measured at FVPL of RMB140.0 million, partially offset by the proceeds from redemption of financial assets of RMB140.4 million.

Net Cash Generated From Financing Activities

For the year ended December 31, 2022, we had net cash generated from financing activities of RMB313.5 million, primarily attributable to (i) proceeds from borrowings from Kelun Pharmaceutical of RMB248.0 million; and (ii) proceeds from new bank loans of RMB115.0 million, partially offset by the repayment of bank loans of RMB45.0 million in 2022.

For the year ended December 31, 2021, our net cash generated from financing activities was RMB647.3 million, primarily attributable to (i) the proceeds from issuance of shares with preferential rights of RMB511.8 million; and (ii) the proceeds from borrowings from Kelun Pharmaceutical of RMB195.5 million, partially offset by the repayment of bank loans of RMB60.0 million in 2021.

CASH OPERATING COSTS

The following table sets forth our cash operating costs for the years indicated:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Costs relating to research and development of our Core Products		
Staff cost	51,085	109,369
Trial and testing expenses	61,769	89,665
Raw materials and others	15,046	57,256
Subtotal	127,900	256,290
Costs relating to research and development of our other drug candidates		
Staff cost	183,071	184,013
Trial and testing expenses	143,068	289,284
Raw materials and others	53,211	58,135
Subtotal	379,350	531,432
Total	507,250	787,722
Workforce employment costs(1)	74,258	62,490
Direct production costs(2)	–	–
Product marketing(3)	–	–
Non-income taxes, royalties and other governmental charges	–	–
Contingency allowances	–	–

Notes:

(1) Workforce employment costs represent total non-research and development personnel costs mainly including salaries and benefits.

(2) We had not commenced commercial-scale product manufacturing as of the Latest Practicable Date.

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

INDEBTEDNESS

As of December 31, 2021 and 2022 and April 30, 2023, being the most recent practicable date for determining our indebtedness, except as disclosed in the table below, we did not have any material indebtedness.

	As of December 31,		As of April 30,
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
			(Unaudited)
Current			
Bank loans and other borrowings	2,387,967	2,890,787	–
Lease liabilities	1,663	82,264	40,313
Financial instruments issued to investors	539,078	580,021	1,952,303
Subtotal	2,928,708	3,553,072	1,992,616
Non-current			
Lease liabilities	1,252	41,292	42,647
Total	**2,929,960**	**3,594,364**	**2,035,263**

Bank Loans and Other Borrowings

As of December 31, 2021 and 2022 and April 30, 2023, the outstanding balances of our bank loans were RMB30.0 million, RMB100.0 million and nil, respectively. For details, see "– Description of Selected Items From the Consolidated Statements of Financial Position – Bank Loans and Other Borrowings." As of the Latest Practicable Date, the remaining balance of our bank loans had been repaid in full by cash.

As of December 31, 2021 and 2022 and April 30, 2023, the outstanding balances of our borrowings from Kelun Pharmaceutical were RMB2,358.0 million, RMB2,790.8 million and nil, respectively. Pursuant to a share subscription and debt-to-equity swap agreement between us, Kelun Pharmaceutical and the other then Shareholders on January 3, 2023, we settled RMB2.5 billion of the outstanding balance of such borrowings by issuing equity to Kelun Pharmaceutical. As of the Latest Practicable Date, the remaining balance of our borrowings from Kelun Pharmaceutical had been repaid in full by cash. For further details, see "History and Corporate Structure – Corporate History – Establishment and Major Shareholding Changes of Our Company – 4. Series B Financing – Share Subscription by Kelun Pharmaceutical" and "– Material Related Party Transactions."

Financial Instruments Issued to Investors

As of December 31, 2021 and 2022 and April 30, 2023, we recorded RMB539.1 million, RMB580.0 million and RMB1,952.3 million financial instruments issued to investors, respectively. For details, see "– Description of Selected Items From the Consolidated Statements of Financial Position – Financial Instruments Issued to Investors."

Lease Liabilities

During the Track Record Period, we leased properties, machinery and equipment for our manufacturing and research and development activities and our office premises, generally with lease terms from one to ten years. We negotiate lease terms, which include different payment terms and conditions, on an individual basis. We recognized lease liabilities in respect of all of our leases, except for short-term leases and leases of low-value assets. The following table sets forth the details of our lease liabilities as of the dates indicated.

	As of December 31,		As of April 30,
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
			(Unaudited)
Within 1 year	1,663	82,264	40,313
After 1 year but within 2 years	250	41,148	42,200
After 2 years but within 5 years	572	144	447
After 5 years	430	–	–
Total	**2,915**	**123,556**	**82,960**

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditures primarily to purchase our property, plant and equipment, and to purchase intangible assets. We funded our capital expenditure requirements during the Track Record Period mainly from borrowings from Kelun Pharmaceutical, payments received in accordance with our license and collaboration agreements, and proceeds from our Series A Financing. The following table sets forth the details of our capital expenditure for the years indicated.

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Payment for the purchase of property, plant and equipment	94,083	33,659
Payment for intangible assets	660	5,333
Total	**94,743**	**38,992**

We plan to finance our future capital expenditures primarily with our existing cash and cash equivalents, payments received from our license and collaboration agreements, and [**REDACTED**] from the [**REDACTED**]. See the section "Future Plans and [**REDACTED**]" in the document for more details. We may reallocate the fund to be utilized on capital expenditures based on our ongoing business needs.

CAPITAL COMMITMENTS

As of December 31, 2021 and 2022, we had capital commitments contracted for but not yet provided of RMB86.3 million and RMB70.2 million, primarily in connection with contracts entered into for the construction of our R&D and manufacturing facilities. The following table sets forth our contractual commitments as of the dates indicated.

	As of December 31,	
	2021	**2022**
	(RMB'000)	*(RMB'000)*
Contracted, but not provided for:		
Construction in progress	86,332	70,151

CONTINGENT LIABILITIES

As of December 31, 2021 and 2022, we did not have any contingent liabilities. Our Directors confirm that there has been no material change in our contingent liabilities since December 31, 2022 to the date of this document.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We did not have during the years presented, and we do not currently have, any off-balance sheet arrangements such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheets.

KEY FINANCIAL RATIOS

The following table set forth our key financial ratios as of the dates indicated:

	As of December 31,	
	2021	**2022**
Current ratio(1)(%)	8.7	8.0
Quick ratio(2)(%)	7.2	6.7

Notes:

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

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

Our current ratio decreased from 8.7% as of December 31, 2021 to 8.0% as of December 31, 2022, and our quick ratio decreased from 7.2% as of December 31, 2021 to 6.7% as of December 31, 2022, primarily because the increase of our current liabilities, which was mainly attributable to the increase of our borrowings from Kelun Pharmaceutical, outpaced the increase of our current assets, which was primarily attributable to the increase of amounts due from Kelun Group.

Our current ratio and quick ratio were relatively low during the Track Record Period, mainly as a result of our borrowings from to Kelun Pharmaceutical in the amount of RMB2,358.0 million and RMB2,790.8 million, respectively, as of December 31, 2021 and 2022, which were recorded as part of bank loans and other borrowings under current liabilities. As of April 30, 2023, our current ratio and quick ratio has increased to 68.7% and 66.1%, respectively, primarily because our borrowings from Kelun Pharmaceutical were fully settled, of which RMB2.5 billion was settled by way of debt-to-equity swap and the remaining was settled by cash. For details, see "– Liquidity and Capital Resources – Working Capital Sufficiency."

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, we had the following transactions with the following related parties that had material transaction amounts or balances with us:

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Transactions of a trade nature		
Provision of goods, services and PPE		
Provision of R&D services to Kelun Group	19,919	16,190
Sales of low-value consumables to Kelun Group	1,040	148
Disposal of PPE to Kelun Group	1,065	16,036
	22,024	32,374
Procurement of goods, services and PPE		
Procurement of R&D services from Kelun Group	74,147	15,666
Procurement of goods from:		
– Kelun Group	1,644	7,270
– Kelun Medicine & Trade Group	9,838	25,605

	For the year ended December 31,	
	2021	**2022**
	RMB'000	*RMB'000*
Purchase of PPE from:		
– Kelun Group	36,990	7,217
– Kelun Medicine & Trade Group	–	620
	122,619	56,378
Transfer of R&D projects to Kelun Group	–	39,761
Leasing of properties and equipment		
Short-term leases for properties and equipment from:		
– Kelun Group	42,892	–
Receiving other miscellaneous services from:		
– Kelun Group	5,732	13,093
– Kelun Medicine & Trade Group	–	143
	5,732	13,236
Transactions of a non-trade nature		
Amounts borrowed from Kelun Group	341,619	299,420
Amounts repaid to Kelun Group	48,251	–
Interest expense on borrowings from Kelun Pharmaceutical	90,209	108,301
Interest expense on lease liabilities to Kelun Group	63	5,571

Provision of Goods, Services and PPE

During the Track Record Period, we provided R&D services and sold certain low-value consumables and equipment to Kelun Group from time to time in our ordinary course of business. The amount we charged for such goods, services and PPE increased from RMB22.0 million for the year ended December 31, 2021 to RMB32.4 million for the year ended December 31, 2022, primarily because we transferred certain equipments to Kelun Group in connection with the transfer of R&D projects in 2022.

Procurement of Goods, Services and PPE

During the Track Record Period, we procured R&D services from Kelun Group, and certain raw materials, low-value consumables, machinery and equipment from our other related parties, including Kelun Group and Kelun Medicine & Trade Group, from time to time in our ordinary course of business. Costs from procurement of goods, services and PPE decreased from RMB122.6 million for the year ended December 31, 2021 to RMB56.4 million for the year ended December 31, 2022, primarily due to (i) a decrease of RMB58.5 million in costs from procurement of R&D services from Kelun Group, and (ii) a decrease of RMB29.8 million from purchase of machinery and equipment from Kelun Group as we reduced the procurement of machinery and equipment from Kelun Group in 2022, partially offset by an increase of RMB15.8 million in procurement of drugs used in our clinical trials and consumables from Kelun Medicine & Trade Group to support our increased R&D activities. See also "Connected Transactions – Partially Exempt Continuing Connected Transactions – Procurement of R&D-related Drugs and Consumables."

Transfer of R&D Projects to Kelun Group

We transferred our cell therapy programs to Kelun Group in December 2022 to focus on the research and development of our pipeline assets. We recorded RMB39.8 million in transaction amount for the year ended December 31, 2022 in relation to such R&D projects.

Leasing of Properties and Equipment

During the Track Record Period, we entered into short-term leases with Kelun Pharmaceutical for certain properties and equipment used in our ordinary course of business. We recorded short-term lease expenses of RMB42.9 million for the year ended December 31, 2021, compared to nil for the year ended December 31, 2022, as our new lease agreements with Kelun Pharmaceutical, which had a term of three years, became effective on January 1, 2022. In accordance with IFRS 16 (Leases), we recorded right-of-use assets on our balance sheet subsequent to January 1, 2022 in connection with this new lease, and lease liabilities representing our obligation to make lease payments to Kelun Pharmaceutical in the future. See also "Connected Transactions – One-off Connected Transactions."

Receiving Other Miscellaneous Services

During the Track Record Period, we procured other miscellaneous services from our other related parties, primarily administrative services such as catering, shuttle buses, office park management, office cleaning and dormitory services. Costs for other miscellaneous services increased from RMB5.7 million for the year ended December 31, 2021 to RMB13.2 million for the year ended December 31, 2022, primarily due to the expansion of service scope provided by Kelun Group. See also "Connected Transactions – Fully Exempt Continuing Connected Transactions – Shared Administrative Services Framework Agreement."

Amounts Borrowed From Kelun Group

Amounts borrowed from Kelun Group decreased from RMB341.6 million for the year ended December 31, 2021 to RMB299.4 million for the year ended December 31, 2022, primarily to satisfy part of our working capital and operational needs.

Amounts Repaid to Kelun Group

Amounts repaid to Kelun Group decreased from RMB48.3 million for the year ended December 31, 2021 to nil for the year ended December 31, 2022 as we did not settle any amounts in 2022. We settled the outstanding balance in full in January and February of 2023. See "– Material Related Party Transaction – Amounts Due to Related Parties" below for details.

Interest Expense on Borrowings From Kelun Pharmaceutical

During the Track Record Period, interest expense of borrowings to related parties was in relation to our borrowings from Kelun Pharmaceutical to satisfy part of our working capital and operational needs. Interest expense of borrowings increased from RMB90.2 million for the year ended December 31, 2021 to RMB108.3 million for the year ended December 31, 2022, mainly associated with an increase of borrowings from Kelun Pharmaceutical. Interest expense on borrowings from Kelun Pharmaceutical is expected to decrease significantly in 2023 due to the full settlement of such borrowings in January and February 2023.

Interest Expense on Lease Liabilities to Kelun Group

During the Track Record Period, interest expense of lease liabilities to related parties was primarily in relation to the leases we entered into with Kelun Pharmaceutical. Interest expense of lease liabilities increased from RMB63.0 thousand for the year ended December 31, 2021 to RMB5.6 million for the year ended December 31, 2022, primarily due to an increase in lease liabilities following the effectiveness of our new three-year lease agreements with Kelun Pharmaceutical.

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

	As of December 31,	
	2021	**2022**
	(RMB'000)	*(RMB'000)*
Amounts due from related parties		
Trade related:		
Kelun Group	22,583	61,635
Kelun Medicine & Trade Group	–	165
	22,583	61,800
Non-trade related:		
Kelun Group	105	–
Amounts due to related parties		
Trade related:		
Kelun Group	193,020	176,308
Kelun Medicine & Trade Group	279	113
	193,299	176,421
Non-trade related:		
Kelun Group	26,494	29,063
Sichuan Kelun Doosan Biotechnology Co., Ltd.	2,119	1,424
	28,613	30,487
Other borrowings:		
Kelun Pharmaceutical	2,357,967	2,790,787
Lease liabilities:		
Kelun Group	1,340	122,854

Amounts Due From Related Parties

Trade Related

Our trade-related amounts due from related parties, including Kelun Group and Kelun Medicine & Trade Group, increased from RMB22.6 million as of December 31, 2021 to RMB61.8 million as of December 31, 2022, primarily in relation to the transfer of cell therapy programs to Kelun Group in 2022.

Non-trade Related

As of December 31, 2021 and 2022, our amounts due from Kelun Group of a non-trade nature amounted to RMB0.1 million and nil, respectively.

Amounts Due to Related Parties

Trade-related

Our trade-related amounts due to related parties, including Kelun Group and Kelun Medicine & Trade Group, decreased from RMB193.3 million as of December 31, 2021 to RMB176.4 million as of December 31, 2022, primarily as we reduced the procurement of R&D services from Kelun Group.

Non-trade Related

As of December 31, 2021 and 2022, we had amounts due to related parties of a non-trade nature of RMB28.6 million and RMB30.5 million, respectively. Our amounts due to related parties of a non-trade nature primarily represented Kelun Group's investment in KLUS PHARMA after Kelun Development, a subsidiary of Kelun Pharmaceutical, transferred its shares in KLUS PHARMA to us in May 2020. For details, see "History – Our Subsidiaries – KLUS PHARMA." As of April 30, 2023, we had settled such outstanding balance in full.

Borrowings From Kelun Pharmaceutical

As of December 31, 2021 and 2022, we had borrowings from Kelun Pharmaceutical of RMB2,358.0 million and RMB2,790.8 million, respectively, all of which were non-trade related, to satisfy part of our working capital and operational needs. Such borrowings had an effective interest rate of 4.35% per annum, which were unsecured and expected to be settled within three years. Pursuant to a share subscription and debt-to-equity swap agreement between us, Kelun Pharmaceutical and the other then Shareholders on January 3, 2023, we settled RMB2.5 billion of the outstanding balance of such borrowings by issuing equity to Kelun Pharmaceutical. As of the Latest Practicable Date, the remaining balance of our borrowings from Kelun Pharmaceutical had been repaid in full by cash. See "History and Corporate Structure – Corporate History – Establishment and Major Shareholding Changes of Our Company – 4. Series B Financing – Share Subscription by Kelun Pharmaceutical."

Lease Liabilities

During the Track Record Period, we recorded trade-related lease liabilities in relation to the lease agreements we entered into with Kelun Pharmaceutical. Our lease liabilities due to Kelun Group increased significantly from RMB1.3 million as of December 31, 2021 to RMB122.9 million as of December 31, 2022, following the effectiveness of our new three-year lease agreements with Kelun Pharmaceutical.

It is the view of our Directors that each of the above transactions (i) was conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties, and (ii) does not distort our Track Record Period results or make our historical results not reflective of future performance. See note 29 to the Accountants' Report as set out in Appendix I for a detailed information of transactions with related parties.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to a variety of market risks and other financial risks, including credit risk, liquidity risk and currency risk as set out below. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. For further details, including relevant sensitivity analysis, see note 27 in the Accountants' Report set out in Appendix I of this document.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to us. Our credit risk is primarily attributable to trade receivables. Our exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks for which we consider to have low credit risk.

We also expect that there is no significant credit risk associated with other receivables and amounts due from related parties since the counterparties to these financial assets have no history of default.

We do not provide any guarantees which would expose us to credit risk.

Trade receivables

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. As of December 31, 2021, all of the total trade receivables were due from our five largest customers.

We trade mainly with recognized and creditworthy third parties. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These take into account the customer's past payment history, financial position and other factors. Trade receivables are due within 30 days from the date of billing. Normally, we do not obtain collateral from customers.

We measure loss allowances for trade receivables at an amount equal to lifetime expected credit losses.

As our historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between our different customer bases. As of December 31, 2021 and 2022, we did not provide any loss allowance for trade receivables. For further details, see note 27(a) of the Accountants' Report set out in Appendix I to this document.

Liquidity Risk

Our policy is to regularly monitor our liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash to meet our liquidity requirements in the short and longer term. For further details and an analysis of the maturity profile of our financial liabilities at the end of each year during the Track Record Period, see note 27(b) of the Accountants' Report set out in Appendix I to the document.

Currency Risk

We are exposed to currency risk primarily through sales and purchases which give rise to cash and cash equivalents and amounts due to related parties that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk is primarily U.S. dollars. Any significant exchange rate fluctuations of U.S. dollars against RMB may have a financial impact on us. We currently take certain foreign currency hedging measures and we did not experience any material impact on our operations resulting from fluctuation in exchange rates during the Track Record Period. However, our management monitors our foreign currency risk exposure and will review and adjust our hedging measures in accordance with our needs. For further details and an analysis of the sensitivity of our financial liabilities to foreign currency risk at the end of each year during the Track Record Period, see note 27(d) of the Accountants' Report set out in Appendix I to this document.

DIVIDENDS

We did not declare or pay dividends on our Shares during the Track Record Period. We currently expect to retain all future earnings for use in operation and expansion of our business, and do not anticipate paying cash dividends in the foreseeable future. The declaration and payment of any dividends in the future will be determined by our Board of Directors and subject to our Articles of Association and the PRC Company Law, and will depend on a number of factors, including the successful commercialization of our products as well as our earnings, capital requirements, overall financial condition and contractual restrictions. As confirmed by our PRC Legal Advisor, any future net profit that we make will have to be applied to make up for our historically accumulated losses in accordance with the PRC laws, after which we will be obliged to allocate 10% of our profit to our statutory common reserve fund until such fund has reached more than 50% of our registered capital. We will therefore only be able to declare dividends after (i) all our historically accumulated losses have been made up for; and (ii) we have allocated sufficient profit to our statutory common reserve fund as described above. In light of our accumulated losses as disclosed in this document, it is unlikely that we will be eligible to pay a dividend out of our profits in the foreseeable future.

DISTRIBUTABLE RESERVES

As of December 31, 2022, we did not have any reserves available for distribution to our Shareholders.

PROPERTIES AND VALUATION

In accordance with the requirement of Rule 5.07 of the Listing Rules, Cushman & Wakefield Limited, an independent property valuer, has valued our property interests as of March 31, 2023. Particulars of our property interests are set out in "Appendix VI – Property Valuation Report" to this document.

The table below sets out the reconciliation between the net book value of our property as of December 31, 2022 in the Accountants' Report set out in Appendix I to this document and the market value of our property as of March 31, 2023, in the Property Valuation Report set out in Appendix VI to this document.

	(RMB in millions)
Net book value of our property as of December 31, 2022	335.1
Capital expenditures	6.5
Depreciation and adjustments	(0.2)
Net book value as of March 31, 2023	341.4
Valuation surplus as of March 31, 2023	50.3
Valuation as of March 31, 2023 as set out in Appendix VI to this document	391.7

[**REDACTED**]

[**REDACTED**] to be borne by us are estimated to be approximately HK$[**REDACTED**] million (assuming an [**REDACTED**] of HK$[**REDACTED**] per Share, being the mid-point of the indicative [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per Share), representing approximately 7.1% of the estimate [**REDACTED**] from the [**REDACTED**] assuming no Shares are issued pursuant to the [**REDACTED**]. The [**REDACTED**] consist of (i) [**REDACTED**] expenses, including [**REDACTED**], of approximately HK$[**REDACTED**] million, and (ii) [**REDACTED**] expenses of approximately HK$[**REDACTED**] million, comprising (a) fees and expenses of our legal advisors and reporting accountants of approximately HK$[**REDACTED**] million, and (b) other fees and expenses of approximately HK$[**REDACTED**] million. During the Track Record Period, the [**REDACTED**] charged to our consolidated statements of profit or loss were RMB[**REDACTED**] million (approximately HK$[**REDACTED**] million) and the issue costs, which was recognized as prepayments and are expected to be deducted from equity upon the [**REDACTED**], were RMB[**REDACTED**] million (approximately HK$[**REDACTED**] million). After the Track Record Period, approximately HK$[**REDACTED**] million is expected to be charged to our consolidated statements of profit or loss, and approximately HK$153.8 million is expected to be accounted for as a deduction from equity upon the [**REDACTED**]. We do not believe any of the above fees or expenses are material or are unusually high to our Group. The [**REDACTED**] above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

The following unaudited [**REDACTED**] statement of our adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the [**REDACTED**] on our consolidated net tangible assets attributable to equity Shareholders of our Company as of December 31, 2022 as if the [**REDACTED**] had taken place on that date.

The unaudited [**REDACTED**] statement of our adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our financial position had the [**REDACTED**] been completed as of December 31, 2022 or at any future date.

[**REDACTED**]

[**REDACTED**]

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, except as disclosed in "Summary – Recent Developments and No Material Adverse Change" and up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2022, which is the end date of the periods reported on in the Accountants' Report included in Appendix I to this document, and there is no event since December 31, 2022 that would materially affect the information 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 confirm that, as of the Latest Practicable Date, they were not aware of any circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.