# Zai Lab Limited
# 再鼎醫藥有限公司*

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 9688)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

Zai Lab Limited together with its subsidiaries (collectively, the "**Company**", "**we**", or "**us**") hereby announces the unaudited condensed consolidated results of the Company for the six months ended June 30, 2023 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2022, which have been prepared in accordance with generally accepted accounting principles in the United States (the "**U.S. GAAP**") and reviewed by the audit committee (the "**Audit Committee**") of the board of directors (the "**Board**") of the Company.

### FINANCIAL HIGHLIGHTS

**Six months ended June 30, 2023 vs. six months ended June 30, 2022 (in U.S. dollars ("$"))**

- Total revenues increased by $36.8 million, or 38.7%, to $131.7 million. Product revenue increased by $38.0 million, or 40.6%, to $131.7 million. Collaboration revenue decreased by $1.2 million to nil.
- Total expenses increased by $17.3 million, or 6.3%, to $290.7 million.
- Research and development expenses increased by $5.2 million, or 4.3%, to $125.2 million.
- Net loss decreased by $50.3 million, or 22.8%, to $170.0 million.
- Basic and diluted loss per share were $0.18, a decrease of 23.3% from $0.23.

# UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

**(In thousands of $, except for number of shares and per share data)**

| | Notes | June 30, 2023 | December 31, 2022 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 3 | 859,155 | 1,008,470 |
| Short-term investments | | 15,500 | — |
| Accounts receivable (net of allowance for credit loss of $14 and $11 as of June 30, 2023 and December 31, 2022, respectively) | 4 | 47,283 | 39,963 |
| Notes receivable | | 20,781 | 8,608 |
| Inventories, net | 5 | 36,353 | 31,621 |
| Prepayments and other current assets | | 38,433 | 35,674 |
| Total current assets | | 1,017,505 | 1,124,336 |
| Restricted cash, non-current | | 1,791 | 803 |
| Long term investments | | 5,128 | 6,431 |
| Prepayments for equipment | | 665 | 1,396 |
| Property and equipment, net | 6 | 56,410 | 57,863 |
| Operating lease right-of-use assets | | 18,537 | 19,512 |
| Land use rights, net | | 3,067 | 6,892 |
| Intangible assets, net | | 1,690 | 1,511 |
| Long-term deposits | | 1,580 | 1,396 |
| **Total assets** | | **1,106,373** | **1,220,140** |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities:** | | | |
| Accounts payable | 7 | 67,031 | 65,974 |
| Current operating lease liabilities | | 7,299 | 7,050 |
| Other current liabilities | 10 | 59,024 | 66,818 |
| Total current liabilities | | 133,354 | 139,842 |
| Deferred income | | 28,625 | 21,360 |
| Non-current operating lease liabilities | | 11,755 | 13,343 |
| Other non-current liabilities | | 325 | — |
| **Total liabilities** | | **174,059** | **174,545** |
| **Commitments and contingencies (Note 17)** | | | |
| **Shareholders' equity** | | | |
| Ordinary shares (par value of $0.000006 per share; 5,000,000,000 shares authorized; 973,355,390 and 962,455,850 shares issued as of June 30, 2023 and December 31, 2022, respectively; 968,566,280 and 960,219,570 shares outstanding as of June 30, 2023 and December 31, 2022, respectively) | | 6 | 6 |
| Additional paid-in capital | | 2,932,053 | 2,893,120 |
| Accumulated deficit | | (2,031,399) | (1,861,360) |
| Accumulated other comprehensive income | | 52,180 | 25,685 |
| Treasury Stock (at cost, 4,789,110 and 2,236,280 shares as of June 30, 2023 and December 31, 2022, respectively) | | (20,526) | (11,856) |
| **Total shareholders' equity** | | **932,314** | **1,045,595** |
| **Total liabilities and shareholders' equity** | | **1,106,373** | **1,220,140** |

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

**(In thousands of $, except for number of shares and per share data)**

| | Notes | Six Months Ended June 30, 2023 | 2022 |
|---|---|---|---|
| Revenues: | | | |
| Product revenue, net | 8 | 131,661 | 93,670 |
| Collaboration revenue | | — | 1,230 |
| Total revenues | | 131,661 | 94,900 |
| Expenses: | | | |
| Cost of sales | | (45,100) | (33,051) |
| Research and development | | (125,153) | (119,938) |
| Selling, general, and administrative | | (130,430) | (120,392) |
| Gain on sale of intellectual property | | 10,000 | — |
| Loss from operations | | (159,022) | (178,481) |
| Interest income | | 20,321 | 1,363 |
| Foreign currency loss | | (31,167) | (32,610) |
| Other expense, net | 15 | (171) | (10,378) |
| Loss before income tax and share of loss from equity method investment | | (170,039) | (220,106) |
| Income tax expense | 9 | — | — |
| Share of loss from equity method investment | | — | (221) |
| Net loss | | (170,039) | (220,327) |
| Net loss attributable to ordinary shareholders | | (170,039) | (220,327) |
| Loss per share - basic and diluted | 11 | (0.18) | (0.23) |
| Weighted-average shares used in calculating net loss per ordinary share - basic and diluted | | 963,140,360 | 956,603,250 |
| Loss per American Depositary Shares (“ADS”) - basic and diluted | | (1.77) | (2.30) |
| Weighted-average ADSs used in calculating net loss per ADS - basic and diluted | | 96,314,036 | 95,660,325 |

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

**(In thousands of $)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| Net loss | (170,039) | (220,327) |
| Other comprehensive income, net of tax of nil: | | |
| Foreign currency translation adjustments | 26,495 | 28,132 |
| Comprehensive loss | (143,544) | (192,195) |

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

**(In thousands of $, except for number of shares)**

| | Ordinary Shares | | | | | Treasury Stock | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Additional paid in capital | Accumulated deficit | Accumulated other comprehensive (loss) income | Shares | Amount | Total |
| Balance at December 31, 2022 | 962,455,850 | 6 | 2,893,120 | (1,861,360) | 25,685 | (2,236,280) | (11,856) | 1,045,595 |
| Issuance of ordinary shares upon vesting of restricted shares | 6,849,080 | 0 | 0 | — | — | — | — | — |
| Exercise of share options | 4,050,460 | 0 | 1,761 | — | — | — | — | 1,761 |
| Receipt of shares netted to satisfy tax withholding obligations related to share-based compensation | — | — | — | — | — | (2,552,830) | (8,670) | (8,670) |
| Share-based compensation | — | — | 37,172 | — | — | — | — | 37,172 |
| Net loss | — | — | — | (170,039) | — | — | — | (170,039) |
| Foreign currency translation | — | — | — | — | 26,495 | — | — | 26,495 |
| Balance at June 30, 2023 | 973,355,390 | 6 | 2,932,053 | (2,031,399) | 52,180 | (4,789,110) | (20,526) | 932,314 |
| | | | | | | | | |
| Balance at December 31, 2021 | 955,363,980 | 6 | 2,825,948 | (1,418,074) | (23,645) | (382,930) | (4,279) | 1,379,956 |
| Issuance of ordinary shares upon vesting of restricted shares | 1,198,500 | 0 | 0 | — | — | — | — | — |
| Exercise of shares options | 3,957,660 | 0 | 4,619 | — | — | — | — | 4,619 |
| Receipt of employees' shares to satisfy tax withholding obligations related to share-based compensation | — | — | — | — | — | (1,642,380) | (6,850) | (6,850) |
| Share-based compensation | — | — | 26,635 | — | — | — | — | 26,635 |
| Net loss | — | — | — | (220,327) | — | — | — | (220,327) |
| Foreign currency translation | — | — | — | — | 28,132 | — | — | 28,132 |
| Balance at June 30, 2022 | 960,520,140 | 6 | 2,857,202 | (1,638,401) | 4,487 | (2,025,310) | (11,129) | 1,212,165 |

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

*"0" in above table means less than $1,000.*

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

**(In thousands of $)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| **Cash flows from operating activities** | | |
| Net loss | (170,039) | (220,327) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Allowance for credit loss (gain) | 3 | (3) |
| Inventory write-down | 623 | 193 |
| Depreciation and amortization expenses | 4,652 | 3,874 |
| Amortization of deferred income | (1,716) | (1,386) |
| Share-based compensation | 37,172 | 26,634 |
| Share of loss from equity method investment | — | 221 |
| Loss from fair value changes of equity investment with readily determinable fair value | 1,304 | 12,556 |
| Loss (gain) on disposal of property and equipment | 260 | (11) |
| Gain on disposal of land use right | (404) | — |
| Noncash lease expenses | 4,383 | 3,825 |
| Gain from sale of intellectual property | (10,000) | — |
| Foreign currency remeasurement loss | 31,167 | 32,610 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (8,863) | 20,422 |
| Notes receivable | (12,714) | (3,633) |
| Inventories | (6,627) | (4,582) |
| Prepayments and other current assets | 87 | 48 |
| Long-term deposits | (184) | (78) |
| Value added tax recoverable | — | 23,602 |
| Accounts payable | 3,037 | (17,718) |
| Other current liabilities | (6,761) | (3,100) |
| Operating lease liabilities | (3,596) | (3,849) |
| Deferred income | 9,902 | (1,325) |
| Other non-current liabilities | 325 | — |
| Net cash used in operating activities | (127,989) | (132,027) |
| **Cash flows from investing activities** | | |
| Purchases of short-term investments | (100,000) | (260,274) |
| Proceeds from maturity of short-term investment | 84,500 | 130,000 |
| Purchase of property and equipment | (5,234) | (13,488) |
| Proceeds from the sale of property and equipment | 112 | — |
| Purchase of intangible assets | (630) | (107) |
| Proceeds from sale of intellectual property | 10,000 | — |
| Net cash used in investing activities | (11,252) | (143,869) |
| **Cash flows from financing activities** | | |
| Proceeds from exercises of stock options | 1,762 | 4,619 |
| Taxes paid related to settlement of equity awards | (7,141) | (6,859) |
| Net cash used in financing activities | (5,379) | (2,240) |

| | | |
|---|---|---|
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash | (3,707) | (5,144) |
| Net decrease in cash, cash equivalents and restricted cash | (148,327) | (283,280) |
| Cash, cash equivalents and restricted cash - beginning of period | 1,009,273 | 964,903 |
| Cash, cash equivalents and restricted cash - end of period | 860,946 | 681,623 |
| | | |
| **Supplemental disclosure on non-cash investing and financing activities** | | |
| Payables for purchase of property and equipment | 4,344 | 1,661 |
| Payables for intangible assets | 96 | 270 |
| Payables for treasury stock | 1,531 | 17 |
| Receivables for stock option exercise under equity incentive plans | — | 12 |
| Right-of-use asset acquired under operating leases | 3,313 | 8,451 |
| Receivables for disposal of land use right | 3,867 | — |
| **Supplemental disclosure of cash flow information** | | |
| Cash and cash equivalents | 859,155 | 680,820 |
| Restricted cash, non-current | 1,791 | 803 |
| Total cash and cash equivalents and restricted cash | 860,946 | 681,623 |

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization and Principal Activities

Zai Lab Limited was incorporated on March 28, 2013 in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands (as amended). The Company is focused on discovering, developing, and commercializing innovative products that address medical conditions with significant unmet needs, including in the areas of oncology, autoimmune disorders, infectious diseases, and neuroscience.

The Company's principal commercial operations and geographic markets are in mainland China, Hong Kong, Macau, and Taiwan ("Greater China"). The Company has a substantial presence in Greater China and the United States. The accompanying unaudited condensed consolidated financial statements are the financial statements of the Company.

### 2. Basis of Presentation and Consolidation and Significant Accounting Policies

#### *(a) Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP, applicable rules and regulations of the U.S. Securities and Exchange Commission, and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), as amended, supplemented or otherwise modified from time to time (the "HK Listing Rules") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP and HK Listing Rules have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this announcement should be read in conjunction with the consolidated financial statements and accompanying notes included in the 2022 Annual Report as filed with the Hong Kong Stock Exchange on April 27, 2023 (the "2022 HK Annual Report"). The December 31, 2022 condensed consolidated balance sheet data included in this announcement were derived from the audited financial statements in the 2022 HK Annual Report.

In the third quarter of 2022, the Company began to separately present the amount of foreign currency remeasurement gain (loss) on our statements of cash flows. This amount was previously included in changes in other current liabilities. This change did not have any impact on net cash used in operating activities. Corresponding amounts in the prior periods of the condensed consolidated financial statement have been presented to conform to the current period presentation.

The accompanying condensed consolidated financial statements reflect all normal recurring adjustments that are necessary to present fairly the results for the interim periods presented. Interim results are not necessarily indicative of the results for the year ending December 31, 2023.

#### *(b) Principles of Consolidation*

The unaudited condensed consolidated financial statements include the financial statements of the Company. All intercompany transactions and balances are eliminated upon consolidation.

#### *(c) Use of Estimates*

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Areas where management uses subjective judgment include, but are not limited to, accrual of rebates, recognition of research and development expenses to the appropriate financial reporting period based on the progress of the research and development projects, fair value of share-based compensation expenses, and recoverability of deferred tax assets. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates.

#### *(d) Fair Value Measurements*

Equity investments with readily determinable fair value are measured using level 1 inputs and were $5.1 million and $6.4 million as of June 30, 2023 and December 31, 2022, respectively. The unrealized gains and losses from fair value changes are

recognized in other expenses, net in the condensed consolidated statements of operations.

Financial instruments of the Company primarily include cash, cash equivalents and restricted cash, short-term investments, accounts receivable, notes receivable, prepayments and other current assets, accounts payable, and other current liabilities. As of June 30, 2023 and December 31, 2022, the carrying values of cash and cash equivalents, short-term investments, accounts receivable, notes receivable, prepayments and other current assets, accounts payable, and other current liabilities approximated their fair values due to the short-term maturity of these instruments, and the carrying value of restricted cash approximated its fair value based on the nature of the assessment of the ability to recover these amounts.

***(e) Recent Accounting Pronouncements***

The Company has not adopted any new accounting standards since December 31, 2022. For a discussion of the Company's significant accounting policies, see the discussion in Note 2 above and the notes to the consolidated financial statements in the 2022 HK Annual Report.

## 3. Cash and Cash Equivalents

The following table presents the Company's cash and cash equivalents ($ in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Cash | 858,089 | 1,007,423 |
| Cash equivalents (i) | 1,066 | 1,047 |
| | 859,155 | 1,008,470 |
| Denominated in: | | |
| US$ | 832,974 | 957,824 |
| RMB (ii) | 21,968 | 45,486 |
| Hong Kong dollar ("HK$") | 3,485 | 4,378 |
| Australian dollar ("A$") | 578 | 598 |
| Taiwan dollar ("TW$") | 150 | 184 |
| | 859,155 | 1,008,470 |

(i) Cash equivalents represent short-term and highly liquid investments in a money market fund.

(ii) Certain cash and bank balances denominated in RMB were deposited with banks in mainland China. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

## 4. Accounts receivable

The following table presents the Company's accounts receivable as of June 30, 2023 and December 31, 2022 ($ in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Accounts receivable, gross | 47,297 | 39,974 |
| Allowance for credit loss | (14) | (11) |
| Accounts receivable, net | 47,283 | 39,963 |

The Company's trading terms with its customers are mainly on credit, and the credit period generally ranges from 40 to 90 days. The Company seeks to maintain strict control over its outstanding receivables, and overdue balances are regularly reviewed. The Company does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

The following table presents an aging analysis of the accounts receivable, based on the invoice date ($ in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Within 3 months | 47,283 | 39,953 |
| 3 months to 6 months | — | 4 |
| 6 months to 1 year | — | 6 |
| Total | 47,283 | 39,963 |

## 5. Inventories, Net

The following table presents the Company's inventories, net ($ in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Finished goods | 16,687 | 12,156 |
| Raw materials | 19,320 | 19,029 |
| Work in progress | 346 | 436 |
| Inventories, net | 36,353 | 31,621 |

The Company writes down inventory for any excess or obsolete inventories or when the Company believes that the net realizable value of inventories is less than the carrying value. The Company recorded write-downs in inventory, which were included in cost of sales of $0.6 million and $0.2 million during the six months ended June 30, 2023 and 2022, respectively.

## 6. Property and Equipment, Net

The following table presents the components of the Company's property and equipment, net ($ in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Office equipment | 985 | 977 |
| Electronic equipment | 8,457 | 7,416 |
| Vehicle | 195 | 202 |
| Laboratory equipment | 19,672 | 18,726 |
| Manufacturing equipment | 16,595 | 17,055 |
| Leasehold improvements | 11,036 | 11,300 |
| Construction in progress | 25,092 | 24,251 |
| | 82,032 | 79,927 |
| Less: accumulated depreciation | (25,622) | (22,064) |
| Property and equipment, net | 56,410 | 57,863 |

Depreciation expense was $4.3 and $3.6 million for the six months ended June 30, 2023 and 2022, respectively.

## 7. Accounts payable

The following table presents an aging analysis of the accounts payable, based on the invoice date ($ in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Within 3 months | 66,283 | 65,249 |
| 3 months to 6 months | 544 | 132 |
| 6 months to 1 year | 196 | 577 |
| Over 1 year | 8 | 16 |
| Total | 67,031 | 65,974 |

The accounts payable are non-interest-bearing and repayable within the normal operating cycle.

## 8. Revenue

***Product Revenue***

The Company's product revenue is primarily derived from the sales of ZEJULA, Optune, QINLOCK, and NUZYRA in mainland China and Hong Kong. The table below presents the Company's product revenue ($ in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Product revenue – gross | 146,222 | 107,649 |
| Less: Rebates and sales returns | (14,561) | (13,979) |
| Product revenue – net | 131,661 | 93,670 |

Sales rebates are offered to distributors in mainland China, and the amounts are recorded as a reduction of revenue. Estimated rebates are determined based on contracted rates, sales volumes, and level of distributor inventories.

The following table presents the Company's net revenue by product ($ in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| ZEJULA | 85,637 | 63,649 |
| Optune | 27,034 | 24,389 |
| QINLOCK | 8,833 | 3,582 |
| NUZYRA | 10,105 | 2,050 |
| VYVGART | 52 | — |
| Product revenue – net | 131,661 | 93,670 |

## 9. Income Tax

No provision for income taxes has been required to be accrued because the Company is in cumulative loss positions for the periods presented.

The Company recorded a full valuation allowance against deferred tax assets of all its consolidated entities because all entities were in a cumulative loss position as of June 30, 2023 and December 31, 2022. No unrecognized tax benefits and related interest and penalties were recorded in the periods presented.

## 10. Other Current Liabilities

The following table presents the Company's other current liabilities ($ in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Payroll | 18,976 | 31,689 |
| Accrued professional service fee | 7,922 | 4,080 |
| Payables for purchase of property and equipment | 4,344 | 5,269 |
| Accrued rebate to distributors | 8,514 | 8,443 |
| Tax payables | 15,768 | 13,283 |
| Others (i) | 3,500 | 4,054 |
| Total | 59,024 | 66,818 |

(i) Others mainly include accrued travel and business-related expenses.

## 11. Loss Per Share

The following table presents the computation of the basic and diluted net loss per share ($ in thousands, except share and per share data):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Numerator: | | |
| Net loss attributable to ordinary shareholders | (170,039) | (220,327) |
| Denominator: | | |
| Weighted average number of ordinary shares - basic and diluted | 963,140,360 | 956,603,250 |
| Net loss per share - basic and diluted | (0.18) | (0.23) |

As a result of the Company's net loss for the six months ended June 30, 2023 and 2022, share options and non-vested restricted shares outstanding in the respective periods were excluded from the calculation of diluted loss per share as their inclusion would have been anti-dilutive.

| | June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Share options | 108,322,600 | 91,546,280 |
| Non-vested restricted shares | 33,462,670 | 34,356,250 |

## 12. Related Party Transactions

The Company incurred research and development expenses for product research and development services provided by MEDx (Suzhou) Translational Medicine Co., Ltd ("MEDx"), over which an immediate family member of our Chief Executive Officer and Chairperson of the Board held significant influence. The Company incurred development expenses with MEDx of insignificant amounts during the six months ended June 30, 2023 and $0.3 million during the six months ended June 30, 2022.

## 13. Share-Based Compensation

During the six months ended June 30, 2023, the Company granted share options to purchase up to 22,776,380 ordinary shares and restricted shares representing 8,326,080 ordinary shares under the 2022 Equity Incentive Plan. The share options granted have a contractual term of ten years. Share options granted since April 2023 generally vest ratably over a four-year period, and share options granted prior to April 2023 generally vest ratably over a five-year period, with 25% or 20% of the awards vesting on each anniversary of the grant date, respectively, subject to continued employment with the Company on the vesting date. For a description of the Company's equity incentive plans and more details on the terms of the share-based awards, see Note 17 to our 2022 HK Annual Report.

During the six months ended June 30, 2023, the share options were granted at exercise prices ranging from $3.35 per share to $3.99 per share. The share options granted were valued using the Black-Scholes model, and the weighted-average grant-date fair value was $2.23 per share. The restricted shares granted generally vest ratably over a specified period on the anniversary of the grant date, subject to continued employment/service with the Company on the vesting date.

Upon each settlement date of certain share-based awards, shares were withheld to cover the required withholding tax, which was based on the value of a share on the settlement date as determined by the applicable price of the ADSs on the trading day of the applicable settlement date. The remaining shares after the withholding were delivered to the recipient. The amount remitted to the tax authorities for employee tax obligations was reflected as a financing activity on the consolidated statements of cash flows. These shares withheld by the Company as a result of the net settlement were accounted for as treasury stock and considered issued but not outstanding.

The following table presents the share-based compensation expense that has been reported in the Company's condensed consolidated statements of operations and comprehensive loss as follows ($ in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2023 | 2022 |
| Selling, general and administrative | 21,839 | 15,923 |
| Research and development | 15,333 | 10,712 |
| Total | 37,172 | 26,635 |

As of June 30, 2023, there was unrecognized share-based compensation expense related to unvested share options and unvested restricted shares of $129.2 million and $130.9 million, respectively, which the Company expects to recognize over a weighted-average period of 3.45 years and 3.21 years, respectively.

## 14. License and Collaboration Agreements

The Company has entered into various license and collaboration agreements with third parties to develop and commercialize product candidates.

Significant License and Collaboration Arrangements

For a description of the material terms of the Company's significant license and collaboration agreements, see Note 18 to our 2022

HK Annual Report. During the six months ended June 30, 2023, the Company did not enter into any new significant license or collaboration agreements. The following includes a description of payments or accruals related to upfront or milestone fees under our significant license and collaboration agreements during the six months ended June 30, 2023.

*License and* Collaboration *Agreement with Entasis Therapeutics Holdings Inc.("Entasis") (SUL-DUR)*

Under the terms of our license and collaboration agreement with Entasis for SUL-DUR, the Company accrued a $3.0 million development milestone fee in the second quarter of 2023, and the additional aggregate amount the Company may be required to pay for development, regulatory, and sales-based milestones decreased to $88.6 million.

*License Agreement* with *BMS (Formerly Turning Point Therapeutics Inc ("Turning Point")) (Repotrectinib)*

Under the terms of our license agreement with BMS for reprotrectinib, the Company accrued a $5.0 million development milestone fee in the second quarter of 2023, and the additional aggregate amount the Company may be required to pay for development, regulatory, and sales-based milestones decreased to $141.0 million.

Other License and Collaboration Arrangements That Are Not Individually Significant

The Company made an upfront payment of $10.0 million in the second quarter of 2023 for a new strategic partnership and global license agreement with MediLink Therapeutics (Suzhou) Co., Ltd. for an early-stage next generation DLL3 ADC program, ZL-1310.

## 15. Other Expenses, Net

The following table presents the Company's other expenses, net ($ in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| Government grants | 83 | 1,627 |
| Loss on equity investments with readily determinable fair value | (1,304) | (12,556) |
| Others miscellaneous gain | 1,050 | 551 |
| Total | (171) | (10,378) |

## 16. Restricted Net Assets

The Company's ability to pay dividends may depend on the Company receiving distributions of funds from its Chinese subsidiaries. Relevant Chinese laws and regulations permit payments of dividends by the Company's Chinese subsidiaries only out of its retained earnings, if any, as determined in accordance with Chinese accounting standards and regulations. The results of operations reflected in the unaudited condensed consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's Chinese subsidiaries.

In accordance with the Company Law of the People's Republic of China, a domestic enterprise is required to provide statutory reserves of at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise's Chinese statutory accounts. A domestic enterprise may provide discretionary surplus reserve, at the discretion of the Board of Directors, from the profits determined in accordance with the enterprise's Chinese statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. The Company's Chinese subsidiaries were established as domestic enterprises and therefore are subject to the above-mentioned restrictions on distributable profits.

No appropriation to statutory reserves was made during the six months ended June 30, 2023 and 2022 because the Chinese subsidiaries had substantial losses during such periods.

As a result of these Chinese laws and regulations, subject to the limits discussed above that require annual appropriations of 10% of after-tax profit to be set aside, prior to payment of dividends, as a general reserve fund, the Company's Chinese subsidiaries are restricted in their ability to transfer out a portion of their net assets.

Foreign exchange and other regulation in mainland China may further restrict the Company's Chinese subsidiaries from transferring out funds in the form of dividends, loans, and advances. As of both June 30, 2023 and December 31, 2022, amounts restricted are the paid-in capital of the Company's Chinese subsidiaries, which was $456.0 million

## 17. Commitments and Contingencies

### *(a) Purchase Commitments*

The Company's commitments related to purchase of property and equipment contracted but not yet reflected in the unaudited condensed consolidated financial statements were $3.9 million as of June 30, 2023 and were expected to be incurred within one year.

### *(b) Legal Proceedings*

The Company is not currently a party to any material legal proceedings.

### *(c) Indemnifications*

In the normal course of business, the Company enters into agreements that indemnify others for certain liabilities that may arise in connection with a transaction or certain events and activities. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations.

## 18. Reconciliation Between U.S. GAAP and International Financial Reporting Standards

The condensed consolidated financial statements of the Company are prepared in accordance with U.S. GAAP, which differ in certain respects from International Financial Reporting Standards ("IFRS"). The following tables present the effect of material differences on the financial information of the Company prepared under U.S. GAAP and IFRS (the "Reconciliation Statements").

***Reconciliation of consolidated statements of operations ($ in thousands)***

| | Six months ended June 30, 2023 | | |
|---|---|---|---|
| | Amounts as reported under U.S. GAAP | IFRS adjustments | Amounts as reported under IFRS |
| Consolidated statements of operations | | Share-based compensation (note (i)) | |
| Expenses | | | |
| Research and development | (125,153) | (7,047) | (132,200) |
| Selling, general and administrative | (130,430) | (7,248) | (137,678) |
| Net loss | (170,039) | (14,295) | (184,334) |
| Net loss attributable to ordinary shareholders | (170,039) | (14,295) | (184,334) |

| | Six months ended June 30, 2022 | | |
|---|---|---|---|
| | Amounts as reported under U.S. GAAP | IFRS adjustments | Amounts as reported under IFRS |
| Consolidated statements of operations | | Share-based compensation (note (i)) | |
| Expenses | | | |
| Research and development | (119,938) | (2,057) | (121,995) |
| Selling, general and administrative | (120,392) | (5,305) | (125,697) |
| Net loss | (220,327) | (7,362) | (227,689) |
| Net loss attributable to ordinary shareholders | (220,327) | (7,362) | (227,689) |

***Reconciliation of consolidated balance sheets ($ in thousands)***

| | As of June 30, 2023 | | |
|---|---|---|---|
| | Amounts as reported under U.S. GAAP | IFRS adjustments | Amounts as reported under IFRS |
| Consolidated balance sheets | | Share-based compensation (note (i)) | |
| Additional paid-in capital | 2,932,053 | 60,365 | 2,992,418 |
| Accumulated deficit | (2,031,399) | (60,365) | (2,091,764) |
| Total shareholders' equity | 932,314 | — | 932,314 |

| | As of December 31, 2022 | | |
|---|---|---|---|
| | Amounts as reported under U.S. GAAP | IFRS adjustments | Amounts as reported under IFRS |
| Consolidated balance sheets | | Share-based compensation (note (i)) | |
| Additional paid-in capital | 2,893,120 | 46,070 | 2,939,190 |
| Accumulated deficit | (1,861,360) | (46,070) | (1,907,430) |
| Total shareholders' equity | 1,045,595 | — | 1,045,595 |

Notes:

(i) Share-Based Compensation

Under U.S. GAAP, the Company has elected to use the straight-line method to recognize compensation expense for instruments granted to employees with graded vesting based on service conditions, subject to the minimum amount of cumulative compensation expense recognized being no less than the portion of the award vested to date.

Under IFRS, the graded vesting method must be applied to recognize compensation expense.

In addition, under U.S. GAAP, the Company has elected to recognize the effect of award forfeitures as they occur, and previously recognized compensation cost is reversed in the period that the award is forfeited.

Under IFRS, the number of instruments that are expected to vest are estimated by the Company initially at the time of grant. Subsequently, these estimates are adjusted for differences between the number of instruments expected to vest and the actual number of instruments vested.

A difference of $14.3 million and $7.4 million arose between the amount of share-based compensation (included in research and development expenses, and selling, general and administrative expenses) recognized under U.S. GAAP and IFRS for the six months ended June 30, 2023 and 2022, respectively.

The accumulated difference on share-based compensation recognized in accumulated deficit and additional paid-in capital under U.S. GAAP and IFRS was $60.4 million and $46.1 million as of June 30, 2023 and December 31, 2022, respectively.

(ii) Leases

Under U.S. GAAP, as a lessee, the Company recognized a lease liability based on the present value of total remaining lease payments, and a corresponding right-of-use asset. The amortization of the right-of-use assets and the interest expenses related to the lease liabilities are recorded together as a single total lease expense on a straight-line basis on the condensed consolidated

statements of operations.

Under IFRS, the amortization of the right-of-use assets is recognized on a straight-line basis while the interest expense related to the lease liabilities is recognized on the basis that the lease liabilities are measured at amortized cost. Compared to U.S. GAAP, this changes the allocation and the total amount of expenses recognized for each period of the lease terms, and results in a higher total charge to profit or loss in the early years and a decreasing expense during the latter years of the lease terms. The amortization on the right-of-use assets and the interest expense on the lease liabilities are separately recorded on the condensed consolidated statements of operations.

Based on the Company's assessment, the differences in leases recognized on the condensed consolidated financial statements as of June 30, 2023 and December 31, 2022, respectively, and for the six months ended June 30, 2023 and 2022, respectively, under U.S. GAAP and IFRS were not material.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis should be read in conjunction with our 2022 HK Annual Report, and our unaudited condensed consolidated financial statements and the accompanying notes thereto included in this announcement.

## Overview

We are a patient-focused, innovative, commercial-stage, global biopharmaceutical company with a substantial presence in both Greater China and the United States. We are focused on discovering, developing, and commercializing products that address medical conditions with significant unmet needs in the areas of oncology, autoimmune disorders, infectious diseases, and neuroscience. We intend to leverage our competencies and resources to positively impact human health in Greater China and worldwide. We currently have five products that have received marketing approval in one or more territories in Greater China (our "commercial products"). We have commercially launched four of those products – ZEJULA®, Optune®, QINLOCK®, and NUZYRA® – and we expect to commercially launch VYVGART® later this year. We also have thirteen programs in late-stage product development and a number of ongoing pivotal trials across our portfolio.

Since our inception, we have incurred net losses and negative cash flows from our operations. Substantially all of our losses have resulted from funding our research and development programs and selling, general and administrative costs associated with our operations. Developing high quality product candidates requires significant investment in our research and development activities over a prolonged period of time, and a core part of our strategy is to continue making sustained investments in this area. Our ability to generate profits and positive cash flow from operations over the next several years depends upon our ability to successfully market our commercial products and to successfully expand the indications for these products and develop and commercialize our other product candidates. We expect to continue to incur substantial expenses related to our research and development activities. For example, our licensing and collaboration agreements may require us to make upfront payments upon our entry into such agreements and milestone payments upon the achievement of certain development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates based on annual net sales of the licensed products in the licensed territories. In addition, we expect to incur substantial costs related to the commercialization of our product candidates, in particular during the early launch phase.

As we pursue our strategy of growth and development, we anticipate that our financial results will fluctuate from quarter to quarter and year to year depending in part on the balance between the success of our commercial products and the level of our research and development expenses. We cannot predict whether or when products in our pipeline, including new indications for our current commercial products, will receive regulatory approval. Further, if we receive such regulatory approval, we cannot predict whether or when we may be able to successfully commercialize such product or whether or when such product may become profitable.

## Recent Developments

*Commercial Products*

We continued to increase net product revenues for each of our commercial products in the first half of 2023, compared to the first half of 2022, driven by increased access for ZEJULA, QINLOCK, and NUZYRA as a result of their inclusion in the National Reimbursement Drug List ("NRDL") and for Optune as a result of increased supplemental insurance plan coverage. In January 2023, QINLOCK was included in the NRDL for fourth-line treatment of advanced gastrointestinal stromal tumor patients and NUZYRA was included for the treatment of adults with community-acquired bacterial pneumonia and acute bacterial skin and skin structure infections. The updated NRDL officially took effect on March 1, 2023.

We also received the following regulatory approvals for our commercial products during the first half of 2023:

- **Optune for GBM in Taiwan**: In May 2023, the Taiwan Food and Drug Administration approved the Marketing Authorization Application ("MAA") for Optune for the treatment of patients with glioblastoma multiforme ("GBM").

- **VYVGART for gMG in mainland China**: In June 2023, we received approval from the NMPA for the Biologics License Application ("BLA") for VYVGART (efgartigimod alfa injection), a first-in-class neonatal Fc receptor ("FcRn") antagonist, as an add on standard therapy for the treatment of adult patients with generalized myasthenia gravis ("gMG") who are anti-acetylcholine receptor ("AChR") antibody positive. We expect to commercially launch VYVGART in mainland China later this year.

*Product Candidates*

We continued to advance our product candidates through our research and development and commercial operations, including the following developments with respect to our clinical trials and regulatory approvals:

*Oncology*

- **ZEJULA (niraparib, PARP)**: In July 2023, we announced the publication in JAMA Oncology of data from the pivotal Phase III PRIME study evaluating ZEJULA as a first-line maintenance therapy in Chinese patients with newly diagnosed advanced ovarian cancer and demonstrating that an individual starting dose ("ISD") of 200 or 300mg based on baseline bodyweight and platelet count can bring significant benefit to patients with an improved safety and tolerability profile of ZEJULA compared to a fixed 300mg starting dose. The data demonstrated that maintenance treatment with ZEJULA can significantly extend progression-free survival ("PFS") versus a placebo and can reduce the risk of disease progression or death by 55% among patients with newly diagnosed advanced ovarian cancer, regardless of postoperative residual disease or biomarker status. For example, with a median follow-up of 27.5 months, median PFS ("mPFS") with ZEJULA versus placebo in the intention-to-treat ("ITT") population was 24.8 versus 8.3 months (hazard ratio ("HR"), 0.45; 95% confidence internal ("CI"), 0.34–0.60; $p<0.001$). At the time of data cut-off, overall survival ("OS") data were not yet mature in the ITT population. Utilization of an individual starting dose demonstrated a tolerable safety profile in the maintenance setting. Grade ≥3 treatment-emergent adverse events ("TEAEs") and serious adverse events ("SAEs") were reported in 54.5% versus 17.8% and 18.8% vs 8.5% in ZEJULA-treated and placebo-treated patient, respectively. Similar proportions of ZEJULA-treated and placebo-treated patients (6.7% vs 5.4%) discontinued therapy due to TEAEs. The findings are consistent with prior studies that indicate that ZEJULA monotherapy as first-line maintenance treatment can provide statistically and clinically meaningful benefit in a broad population of patients, regardless of postoperative residual disease or biomarker status.

- **Tumor Treating Fields (TTFields or Optune):**

  - *NSCLC:* In June 2023, we announced with our partner NovoCure Limited ("NovoCure") that the Phase III LUNAR clinical trial demonstrated a statistically significant and clinically meaningful extension in OS for patients with metastatic non-small cell lung cancer ("NSCLC") after platinum-based therapies. The LUNAR trial met its primary endpoint with a statistically significant and clinically meaningful 3-month improvement in median OS when TTFields therapy was added to standard therapies (HR: 0.74, P=0.035). Patients randomized to receive TTFields therapy together with standard therapies (n=137) demonstrated median OS of 13.2 months compared to 9.9 months in patients treated with standard therapies alone (n=139). A profound OS benefit from TTFields therapy was demonstrated in the immune checkpoint inhibitor ("ICI") subgroup. Patients randomized to receive TTFields therapy and physician's choice ICI (n=66) demonstrated a median OS of 18.5 months versus 10.8 months in patients treated with ICIs alone (n=68; HR=0.63; P=0.03), and patients randomized to receive TTFields therapy and docetaxel (n=71) had a positive survival trend with a median OS of 11.1 months versus 8.7 months in patients treated with docetaxel alone (n=71). TTFields therapy was well-tolerated with no added systemic toxicities and few grade 3 (no grade 4 or 5) device-related adverse events. NovoCure presented the positive results at the 2023 American Society of Clinical Oncology ("ASCO") Annual Meeting in June 2023. We participated in the Greater China portion of the study.

  - *Pancreatic Cancer:* In July 2023, NovoCure announced the results of a pre-specified interim analysis for the Phase III PANOVA-3 clinical trial evaluating the safety and efficacy of TTFields therapy together with nab-paclitaxel and gemcitabine for the treatment of patients with unresectable, locally advanced pancreatic cancer. An independent data monitoring committee ("DMC") reviewed the safety and efficacy data for all patients

in the fully enrolled clinical trial. The interim analysis resulted in a DMC recommendation that the clinical trial proceed to final analysis. We participated in the Greater China portion of the study.

- **KRAZATI® (adagrasib, KRAS$^{G12C}$):** In April 2023 and May 2023, our partner Mirati Therapeutics, Inc. ("Mirati") announced the inclusion of adagrasib as the only KRAS$^{G12C}$ inhibitor in the National Comprehensive Cancer Network ("NCCN") Guidelines for patients with KRAS$^{G12C}$-mutated NSCLC with central nervous system ("CNS") metastases and for KRAS$^{G12C}$-mutation positive pancreatic adenocarcinoma cancer patients, respectively. Also, in April 2023, Mirati presented updated clinical data for adagrasib as a targeted treatment for pancreatic ductal adenocarcinoma, biliary tract cancer, and other solid tumors harboring a KRAS$^{G12C}$ mutation at the 2023 American Society of Clinical Oncology ("ASCO") Plenary series. Data was concurrently published in the Journal of Clinical Oncology. In June 2023, we completed enrollment in China for the global Phase 2 KRYSTAL-7 trial of adagrasib in combination with pembrolizumab as first-line treatment for patients with advanced KRAS$^{G12C}$-mutated NSCLC, and in July 2023, we completed enrollment in China for the global Phase 3 KRYSTAL-10 trial of adagrasib in combination with cetuximab versus chemotherapy in patients with previously treated advanced KRAS$^{G12C}$-mutated colorectal cancer.

- **Repotrectinib (ROS1/TRK):** In May 2023, our partner Bristol Myers Squibb ("BMS") announced that the FDA had accepted its New Drug Application ("NDA") for repotrectinib, a next generation tyrosine kinase inhibitor ("TKI"), for the treatment of adult patients with ROS1-positive locally advanced or metastatic NSCLC based on results from the TRIDENT-1 trial. The FDA granted the application priority review and assigned a Prescription Drug User Fee Act ("PDUFA") date of November 27, 2023. In June 2023, the NMPA accepted our NDA for repotrectinib for the same indications, after granting priority review in May 2023.

- **TIVDAK® (Tisotumab Vedotin, Antibody Drug Conjugate ("ADC")):** In April 2023, our partner Seagen Inc. ("Seagen") presented the interim analysis for the Phase II innovaTV 207 study in head and neck cancer at the 2023 American Association of Cancer Research ("AACR") Annual Meeting. At data cutoff (November 28, 2022), confirmed objective response rate ("ORR") was 40% (95% confidence interval ("CI"): 16.3, 67.7), with 1 complete response and 5 partial responses. The safety profile was generally consistent with that observed across TIVDAK monotherapy clinical studies. In addition, in February 2023, Seagen completed global target patient enrollment for the Phase III confirmatory innovaTV 301 study in second- or third-line recurrent or metastatic cervical cancer. We are participating in the global trial and ongoing extension study in Greater China.

- **Bemarituzumab (FGFR2b):** In March 2023, we obtained Clinical Trial Application ("CTA") approval for the Phase III FORTITUDE-101 study of bemarituzumab plus chemotherapy, versus placebo plus chemotherapy, in first-line gastric cancer with FGFR2b overexpression. In July 2023, we enrolled the first patient in China in the global Phase III FORTITUDE-101 study.

- **Odronextamab (CD20xCD3)**: In March 2023, we completed enrollment in China for the registrational global Phase II ELM-2 trial in B-cell non-Hodgkin lymphoma.

*Autoimmune Disorders, Infectious Diseases, and Neuroscience*

- **VYVGART (Efgartigimod, FcRn):**

  - *gMG:* In June 2023, our partner argenx BV ("argenx") announced that the FDA approved VYVGART Hytrulo (efgartigimod alfa and hyaluronidase-qvfc) injection for subcutaneous use in gMG. In July 2023, the NMPA accepted our BLA for efgartigimod alfa injection (subcutaneous ("SC") injection) for the treatment of adult patients with gMG.

  - *CIDP:* In July 2023, we and argenx announced positive topline results from the global registrational ADHERE study evaluating VYVGART Hytrulo in adults with chronic inflammatory demyelinating polyneuropathy ("CIDP"). The study met its primary endpoint (p=0.000039), demonstrating a significantly lower risk of relapse with VYVGART Hytrulo compared to placebo. VYVGART Hytrulo demonstrated a 61% reduction (HR: 0.39 95% CI: 0.25; 0.61) in the risk of relapse versus placebo, and 67% of patients in

open-label Stage A demonstrated evidence of clinical improvement, indicating that IgG autoantibodies play a significant role in the underlying biology of CIDP. The safety and tolerability profile was consistent with previous clinical trials and the confirmed safety profile of VYVGART. We participated in the Greater China portion of the study.

- *BP:* In May 2023, we enrolled the first patient in China in the global Phase II/III BALLAD study of SC efgartigimod in adult patients with bullous pemphigoid ("BP").

- **XACDURO® (Sulbactam-Durlobactam or SUL-DUR, Asia Pacific Rights):** In May 2023, our partner Entasis Therapeutics, Inc. ("Entasis"), a wholly owned subsidiary of Innoviva, Inc., announced that the FDA approved XACDURO for the treatment of adults with hospital-acquired bacterial pneumonia and ventilator-associated bacterial pneumonia caused by susceptible strains of Acinetobacter baumannii-calcoaceticus complex. Our NDA for the treatment of infections caused by Acinetobacter baumannii, including multidrug-resistant and carbapenem-resistant *Acinetobacter baumannii* strains, was accepted in February 2023 after granting priority review in January 2023 and is under review at the NMPA.

- **KarXT (Xanomeline-Trospium, M1/M4-Preferring Muscarinic Agonist):** In March 2023, our partner Karuna Therapeutics, Inc. announced positive results from the Phase III EMERGENT-3 trial of KarXT in schizophrenia. The trial met its primary endpoint, with KarXT demonstrating a statistically significant and clinically meaningful 8.4-point reduction in Positive and Negative Syndrome Scale (PANSS) total score compared to placebo (-20.6 KarXT vs. -12.2 placebo; 0.0001) at Week 5 (Cohen's d effect size of 0.60). Consistent with prior trials, KarXT demonstrated an early and sustained statistically significant reduction of symptoms from Week 2 ($p<0.0001$) at Week 5 (Cohen's d effect size of 0.60). Consistent with prior trials, KarXT demonstrated an early and sustained statistically significant reduction of symptoms from Week 2 ($p<0. 05$) through the end of the trial as assessed by PANSS total score. The pharmacokinetic ("PK") study in mainland China is ongoing. In January 2023, the NMPA approved the CTA for a registrational bridging study in mainland China for KarXT for the treatment of patients with schizophrenia, and in June 2023, we enrolled the first patient in this bridging study.

*Corporate Updates*

We continued to enhance our portfolio through strategic partnerships and to strengthen our organizational structure to support the evolving needs of our business:

- **Business Development:** In April 2023, we entered into a strategic partnership and global license agreement with MediLink Therapeutics (Suzhou) Co., Ltd. ("MediLink"). Through this collaboration, we expanded our lung cancer franchise and global oncology pipeline with an early-stage next generation DLL3 ADC program, ZL-1310. DLL3 is an inhibitor of the Notch ligand that is overexpressed in small cell lung cancer and neuroendocrine tumors. ZL-1310 has demonstrated an encouraging pre-clinical profile. ZL-1310 is progressing to the clinical stage, and we plan to focus on advancing its global development.

- **Organizational Update:** As we enter into a stage of further growth, productivity, and global opportunities, we promoted Joshua Smiley to the role of President and Chief Operating Officer, effective April 1, 2023. Mr. Smiley joined the Company as our Chief Operating Officer in August 2022. He is responsible for our corporate strategy and for overseeing our commercial, manufacturing, business development, finance, human resources, information technology, and corporate affairs functions. In this new role, Mr. Smiley will further help our leadership team enter and better anticipate the strategic and operational needs of this next period of growth for the Company. In addition, we promoted Yajing Chen to Chief Financial Officer, effective July 7, 2023. Dr. Chen previously served as our Senior Vice President and Deputy Chief Financial Officer, helping to oversee finance, planning and forecasting, accounting, tax, treasury, and procurement matters since joining the Company in September 2021. She is a seasoned finance executive with more than 20 years of experience in the life sciences industry as well as a Ph.D. trained scientist. She joined the Company from AstraZeneca where she held various roles of increasing responsibility from 2006 to 2021, including Chief Financial Officer for the U.S. Oncology Business Unit from 2019 to 2021 and Finance Controller of the Global Oncology Business Unit from 2016 to 2019. Her scientific background combined with her significant executive management experience, finance

expertise at leading global companies, and business acumen provide a unique and valuable perspective to the Company and will help drive our next phase of growth. Dr. Chen succeeds Billy Cho, who stepped down from his role and left the Company on July 7, 2023.

*Legal and Regulatory Developments*

Our business has been and continues to be impacted by legal and regulatory developments in the jurisdictions in which we operate, particularly in mainland China where our operations and product markets are primarily located. Effective in May 2023, the State Administration for Market Regulation's Measures for the Administration of Internet Advertising reiterate requirements under the PRC Advertising Law for advance approval from local administrative authorities to advertise pharmaceutical products and impose additional restrictions on the form and content of advertisements for pharmaceutical products. In February 2023, the National Health Commission, together with three other government agencies, jointly released the Measures on Ethics Review for Life Sciences and Medical Research Involving Human Subjects (the "Ethics Review Measures"), which set forth criteria and specific steps for ethics reviews for life sciences and medical research involving human subjects carried out by medical institutions, colleges and universities, or scientific research institutes located within mainland China and elaborate the content requirements for informed consent forms. Clinical trials carried out by PRC clinical trial sites and sponsored by us are generally subject to the Ethics Review Measures. The Provisions on Supervision and Administration of Marketing Authorization Holders Concerning the Implementation of Primary Responsibilities for Drug Quality and Safety became effective on March 1, 2023. These provisions require marketing authorization holders, including us, to assume primary responsibility for the safety, effectiveness, and quality of drugs during the total product life cycle, and they impose new requirements on drug quality management and drug recall systems, including maintaining a data-based traceability system, among other things. In March 2023, the People's Government of Hainan Province published revised Regulations for the Administration of the Imported Urgently Needed Drugs and Medical Devices in the Hainan Bo'ao Lecheng International Medical Tourism Pilot Zone (the "BMTPZ"), which became effective in May 2023. Under these regulations, medical institutions in the BMTPZ meeting certain qualifications may apply to use our products that meet specified requirements, including drugs or medical devices that address specific urgent clinical needs that cannot be met with existing approved products. We have successfully used this pathway in the past, and with the revised regulation, we will continue to look for opportunities to use this pathway to accelerate our entry into the China market for product candidates in advance of NMPA approval. In April 2023, the Standing Committee of the National People's Congress voted to adopt a revised Counter-Espionage Law, which went into effect on July 1, 2023. The revised Counter-Espionage Law is intended to strengthen provisions on the protection of national security in mainland China. The revised Counter-Espionage Law may increase our cyber security or operational costs and could subject us to investigative or enforcement actions by the Chinese government or regulatory authorities. In July 2023, the Ministry of Science and Technology of the People's Republic of China published an updated Service Guide for the Examination and Approval of Sampling, Collecting, Trading, Exporting Human Genetic Resources, which will impact the Company's practices in filing for an advance approval with the HGRAC.

## Factors Affecting Our Results of Operations

### Research and Development Expenses

We believe our ability to successfully develop product candidates will be the primary factor affecting our long-term competitiveness, as well as our future growth and development. Developing high quality product candidates requires a significant investment of resources over a prolonged period of time, and a core part of our strategy is to continue making sustained investments in research and development, including internal discovery activities. As a result of this commitment, our pipeline of product candidates has been advancing and expanding, with thirteen late-stage clinical product candidates being investigated as of June 30, 2023.

We have financed our activities primarily through private placements, our initial public offering in September 2017 and multiple follow-on offerings on Nasdaq and our secondary listing and initial public offering on the Hong Kong Stock Exchange in September 2020. Through June 30, 2023, we have raised approximately $164.6 million from private equity financing and approximately $2,462.7 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us from our initial public offerings and follow-on offerings. Our operations have consumed substantial amounts of cash since inception. The net cash used in our operating activities was $128.0 million and $132.0 million for the

first half of 2023 and 2022, respectively. We expect our expenditures to increase in connection with our ongoing activities, particularly as we advance the clinical development of our thirteen late-stage clinical product candidates, research and develop our clinical- and pre-clinical-stage product candidates, and initiate additional clinical trials of, and seek regulatory approval for, these and other future product candidates. These expenditures include:

- expenses incurred for contract research organizations ("CROs"), contract manufacture organizations ("CMOs"), investigators, and clinical trial sites that conduct our clinical studies;
- employee compensation related expenses, including salaries, benefits, and equity compensation expenses;
- expenses for licensors;
- the cost of acquiring, developing, and manufacturing clinical study materials;
- facilities and other expenses, which include office leases and other overhead expenses;
- costs associated with pre-clinical activities and regulatory operations; and
- expenses associated with the construction and maintenance of our manufacturing facilities.

## Selling, General, and Administrative Expenses

Our selling, general, and administrative expenses consist primarily of personnel compensation and related costs, including share-based compensation for commercial and administrative personnel. Other selling, general, and administrative expenses include product distribution and promotion costs, professional service fees for legal, intellectual property, consulting, auditing, and tax services as well as other direct and allocated expenses for rent and maintenance of facilities, insurance, and other supplies used in selling, general, and administrative activities. We anticipate that our selling, general, and administrative expenses will increase in future periods to support increases in our commercial and research and development activities and as we continue to discover, develop, commercialize, and manufacture our products and product candidates. These increases will likely include expanded infrastructure as well as increased headcount, and share-based compensation, product distribution, promotion, and insurance costs. We also anticipate incurring additional legal, compliance, accounting, and investor and public relations expenses associated with being a public company listed on both Nasdaq and the Hong Kong Stock Exchange.

## Our Ability to Commercialize Our Product Candidates

As of August 1, 2023, thirteen of our product candidates were in late-stage clinical development and various others were in clinical and pre-clinical development in Greater China and the United States. Our ability to generate revenue from our product candidates is dependent on our receipt of regulatory approvals for and successful commercialization of such product candidates, which may not occur. Certain of our product candidates may require additional pre-clinical and/or clinical development, regulatory approvals in multiple jurisdictions, manufacturing supply, substantial investment, and significant marketing efforts before we generate any revenue from product sales.

## License and Collaboration Arrangements

Our results of operations have been, and we expect them to continue to be, affected by our license and collaboration agreements. We may be required to make upfront payments upon our entry into such agreements and milestone payments upon the achievement of certain development, regulatory, and sales-based milestones for the relevant products under these agreements as well as certain royalties at tiered percentage rates based on annual net sales of the licensed products. We recorded research and development expense related to upfront license fees and development milestones of $19.3 million and $10.4 million for the first half of 2023 and 2022, respectively. We may be obligated to pay up to an additional aggregate amount of approximately $2,443.8 million in development and regulatory milestone payments and $3,437.4 million in sales-based milestone payments that are contingent on product performance as well as certain royalties at tiered percentage rates on annual net sales. These milestones may not occur at all, or certain development and regulatory milestones may occur before the Company has commercialized or received any revenue from the licensed product. If these milestones do occur, we view related payments as positive because they signify that the product is advancing toward potential commercial launch

or achieving higher sales levels.

## FUTURE AND OUTLOOK

Our mission is to be a leading global biopharmaceutical company focused on discovering, developing, and commercializing innovative products that improve the lives of patients in China and worldwide. For the remainder of 2023, our key corporate strategic goals for driving innovation in China and beyond include the following:

**Accelerating Medicines to Patients**: We seek to advance our product pipeline by continuing to invest in research and development, including internal discovery activities;

**Expanding Our Pipeline**: We seek the continued growth of our differentiated product pipeline through regional and global collaborations and corporate development activities; and

**Continuing Our Commercial Excellence and Execution**: We seek to continue delivering strong financial performance, including by increasing access to our commercial products and driving further increases in our efficiency and productivity as we continue preparations to launch eight additional products in Greater China in the next 3 years. Through our efforts, we seek to achieve overall corporate profitability by the end of 2025.

We also seek to build and maintain the trust of our stakeholders. In 2022, we established our ESG Trust for Life strategy, which includes three commitments: improve human health, create better outcomes, and act right now with ethical business practices and strong corporate governance. As part of our corporate strategy, and the actions taken in support of our corporate goals, we will continue to develop and integrate our Trust for Life strategy into our business and operations.

### The COVID-19 Pandemic

Our results of operations have been adversely affected by the COVID-19 pandemic, including by government actions and quarantine measures taken in response in 2022 and increased infection rates in the first quarter of 2023 after COVID restrictions were lifted or eased, particularly in mainland China where our operations and product markets are primarily located. For example, the pandemic adversely affected our net product revenues in 2022 and the first quarter of 2023 through decreased patient access to our products, such as through reduced hospital access during periods of lockdown or high infection rates, fewer newly diagnosed oncology patients, and delayed or interrupted treatments. The pandemic also adversely affected our manufacturing and supply chain and our research and development, sales, marketing, and clinical trial activities. The operations of our suppliers, CROs, CMOs, and other contractors and third parties on which we rely also were adversely affected. The COVID-19 pandemic did not have a material adverse effect on our business or results of operations in the second quarter of 2023.

## Key Components of Results of Operations

In this section, we discuss key components of our results of operations for the first half of 2023 compared to the first half of 2022.

The following table presents our results of operations ($ in thousands):

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| Revenues: | | | | |
| Product revenue, net | 131,661 | 93,670 | 37,991 | 41 % |
| Collaboration revenue | — | 1,230 | (1,230) | (100)% |
| Total revenues | 131,661 | 94,900 | 36,761 | 39 % |
| Expenses: | | | | |
| Cost of sales | (45,100) | (33,051) | (12,049) | 36 % |
| Research and development | (125,153) | (119,938) | (5,215) | 4 % |
| Selling, general, and administrative | (130,430) | (120,392) | (10,038) | 8 % |
| Gain on sale of intellectual property | 10,000 | — | 10,000 | NM |
| Loss from operations | (159,022) | (178,481) | 19,459 | (11)% |
| Interest income | 20,321 | 1,363 | 18,958 | 1391 % |
| Foreign currency loss | (31,167) | (32,610) | 1,443 | (4)% |
| Other expense, net | (171) | (10,378) | 10,207 | (98)% |
| Loss before income tax and share of loss from equity method investment | (170,039) | (220,106) | 50,067 | (23)% |
| Income tax expense | — | — | — | — % |
| Share of loss from equity method investment | — | (221) | 221 | (100)% |
| Net loss | (170,039) | (220,327) | 50,288 | (23)% |
| Net loss attributable to ordinary shareholders | (170,039) | (220,327) | 50,288 | (23)% |

*NM - Not Meaningful*

### *Revenues*

### *Product Revenue*

The following table presents the components of the Company's product revenue ($ in thousands):

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| Product revenue - gross | 146,222 | 107,649 | 38,573 | 36 % |
| Less: Rebates and sales return | (14,561) | (13,979) | (582) | 4 % |
| Product revenue - net | 131,661 | 93,670 | 37,991 | 41 % |

Our product revenue is primarily derived from the sales of ZEJULA, Optune, QINLOCK, and NUZYRA in mainland China and Hong Kong, net of sales returns and rebates to distributors in mainland China with respect to the sales of these products. We had a minimal amount of revenue for VYVGART from our named patient program in mainland China in the second quarter of 2023.

Our net product revenue increased by $38.0 million in the first half of 2023, primarily driven by increased sales volumes and decreased negative effects from the COVID-19 pandemic. The adverse effects of the COVID-19 pandemic had a more significant impact on our sales volumes for the first half of 2022 due to decreased patient access to our products, such as through reduced hospital access during periods of lockdown or high infection rates, fewer newly diagnosed oncology patients, and delayed or interrupted treatments. The COVID-19 pandemic did not have a material adverse effect on our sales volume

in the second quarter of 2023.

For the first half of 2023, our product revenue included negative adjustments of $5.2 million to compensate distributors for sales of QINLOCK and NUZYRA at prices prior to the price reductions made in connection with their addition to the NRDL. The Company lowered the selling price of ZEJULA due to its inclusion in the NRDL in December 2021 for certain therapies. In June 2022, the Company lowered the selling price for QINLOCK and NUZYRA. Accordingly, for the first half of 2022, our product revenue included negative adjustments of $5.8 million to compensate distributors for sales of ZEJULA, QINLOCK and NUZYRA at prices prior to the price reductions. Such sales rebates to distributors on previously purchased products are customary in our industry to compensate those distributors for the new NRDL selling price.

The following table presents net revenue by product ($ in thousands):

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| ZEJULA | 85,637 | 63,649 | 21,988 | 35 % |
| Optune | 27,034 | 24,389 | 2,645 | 11 % |
| QINLOCK | 8,833 | 3,582 | 5,251 | 147 % |
| NUZYRA | 10,105 | 2,050 | 8,055 | 393 % |
| VYVGART | 52 | — | 52 | NM |
| Total product revenue, net | 131,661 | 93,670 | 37,991 | 41 % |

*NM - Not Meaningful*

***Cost of Sales***

Cost of sales increased by $12.0 million in the first half of 2023, primarily due to increasing sales volumes and higher royalties.

***Research and Development Expenses***

The following table presents the components of our research and development expenses ($ in thousands):

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| Personnel compensation and related costs | 58,034 | 51,847 | 6,187 | 12 % |
| Licensing fees | 19,282 | 10,436 | 8,846 | 85 % |
| CROs/CMOs/Investigators expenses | 36,065 | 46,918 | (10,853) | (23)% |
| Other costs | 11,772 | 10,737 | 1,035 | 10 % |
| **Total** | 125,153 | 119,938 | 5,215 | 4 % |

Research and development expenses increased by $5.2 million in the first half of 2023 primarily due to:

- an increase of $8.8 million in licensing fees in connection with increased upfront and milestone payments for our license and collaboration agreements;
- an increase of $6.2 million in personnel compensation and related costs primarily due to headcount growth and grants of share options and restricted shares and the continued vesting of option and restricted share awards; and
- an increase of $1.0 million in other costs related to ongoing and newly initiated clinical trials; those increases were partially offset by:
- a decrease of $10.9 million in CROs/CMOs/Investigators expenses due to compensation from collaboration partners related to our clinical trials.

The following table presents our research and development expenses by program ($ in thousands):

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| Clinical programs | 44,989 | 56,144 | (11,155) | (20)% |
| Pre-clinical programs | 13,239 | 4,522 | 8,717 | 193 % |
| Unallocated research and development expenses | 66,925 | 59,272 | 7,653 | 13 % |
| **Total** | 125,153 | 119,938 | 5,215 | 4 % |

Research and development expenses attributable to clinical programs decreased by $11.2 million in the first half of 2023, primarily driven by compensation from collaboration partners related to our clinical trials.

Research and development expenses attributable to pre-clinical programs increased by $8.7 million in the first half of 2023, primarily driven by increased license fees.

Although we manage our external research and development expenses by program, we do not allocate our internal research and development expenses by program because our employees and internal resources may be engaged in projects for multiple programs at any given time.

***Selling, General, and Administrative Expenses***

The following table presents our selling, general and administrative expenses by program ($ in thousands):

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| Personnel compensation and related costs | 83,788 | 79,523 | 4,265 | 5 % |
| Professional service fees | 14,348 | 15,505 | (1,157) | (7)% |
| Other costs | 32,294 | 25,364 | 6,930 | 27 % |
| **Total** | 130,430 | 120,392 | 10,038 | 8 % |

Selling, general, and administrative expenses increased by $10.0 million in the first half of 2023 primarily due to:

- an increase of $6.9 million in other costs mainly related to selling, rental, and administrative expenses for commercial operations in mainland China, Hong Kong, and Taiwan; and
- an increase of $4.3 million in personnel compensation and related costs which was primarily driven by headcount growth, particularly in commercial and administrative personnel, and grants of share options and restricted shares and the continued vesting of option and restricted share awards; those increases were partially offset by:
- a decrease of $1.2 million in professional service fees primarily related to legal expenses.

***Gain on Sale of Intellectual Property***

During the first half of 2023, we sold certain patent rights and related know-how to a third party, resulting in a gain of $10.0 million. We had no such intellectual property sales resulting in gains or losses in the prior year period.

***Interest Income***

Interest income increased by $19.0 million in the first half of 2023 due to increased interest rates.

***Foreign Currency Loss***

Foreign currency loss decreased by $1.4 million in the first half of 2023, primarily driven by decreased remeasurement loss due to depreciation of the RMB against the U.S. dollar.

***Other Expenses, Net***

Other expenses, net decreased by $10.2 million in the first half of 2023, primarily due to a decrease in equity investment

loss in MacroGenics of $11.3 million, partially offset by a decrease in governmental subsidies of $1.5 million.

***Income Tax Expense***

There was no change in our income tax expense, which was zero in the first half of 2023 and 2022.

## Discussion of Certain Key Balance Sheet Items

This section includes discussion of certain key balance sheet items as of June 30, 2023 compared to December 31, 2022.

***Cash, Cash Equivalents, Restricted Cash, and Short-Term Investments***

As of June 30, 2023, the Company's cash, cash equivalents, restricted cash and short-term investments amounted to $876.4 million and primarily comprised of (1) $850.3 million denominated in U.S. dollars; (2) $22.0 million denominated in Renminbi; and (3) $4.1 million in aggregate denominated in Hong Kong dollars, Australian dollars, and Taiwan dollars.

***Accounts Receivable***

Accounts receivable increased by $7.3 million to $47.3 million as of June 30, 2023, primarily due to the increased receivables from our customers arising from product sales in the first half of 2023.

***Inventories***

Our inventories increased by $4.7 million to $36.4 million as of June 30, 2023, mainly because we built up our inventory balance in anticipation of increasing sales.

***Property and Equipment, Net***

Property and equipment decreased by $1.5 million to $56.4 million as of June 30, 2023, primarily due to their continued depreciation.

***Accounts Payable***

Accounts payable increased by $1.0 million to $67.0 million as of June 30, 2023, due to an increase in amounts due to third parties.

***Other Current Liabilities***

Other current liabilities decreased by $7.8 to $59.0 million as of June 30, 2023, primarily due to payment of employee bonuses, partially offset by an increase in accrued professional service fee and tax payables related to settlements of equity awards and value added taxes.

## Liquidity and Capital Resources

The following table represents our cash and cash equivalents, short-term investments, and restricted cash ($ in thousands):

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Cash and cash equivalents | 859,155 | 1,008,470 |
| Short-term investments | 15,500 | — |
| Restricted cash, non-current | 1,791 | 803 |
| Total | 876,446 | 1,009,273 |

To date, we have financed our activities primarily through private placements, our September 2017 initial public offering and various follow-on offerings on Nasdaq, and our September 2020 secondary listing and initial public offering on the Hong Kong Stock Exchange. Through June 30, 2023, we have raised approximately $164.6 million in private equity financing and approximately $2,462.7 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us in our initial public offering and subsequent follow-on offerings on Nasdaq and our initial public

offering on the Hong Kong Stock Exchange. Our operations have consumed substantial amounts of cash since inception. The net cash used in our operating activities was $128.0 million and $132.0 million for the first half of 2023 and 2022, respectively. As of June 30, 2023, we had commitments for capital expenditures of $3.9 million, mainly for the purpose of plant construction and installation. For information on our research and development activities and expenditures see the Research and Development Expenses, License and Collaboration Arrangements, and Results of Operations sections in MD&A above.

As of June 30, 2023, we had cash and cash equivalents, restricted cash, and short-term investments of $876.4 million. Based on our current operating plan, we expect that our cash, cash equivalents, restricted cash, and short-term investments will enable us to meet our cash requirements and fund our operating expenses and capital expenditure requirements for at least the next 12 months. However, in order to bring to fruition our research and development objectives, we may ultimately need additional funding sources, and there can be no assurances that such funding will be made available to us on acceptable terms or at all.

The following table presents information regarding our cash flows ($ in thousands):

| | Six Months Ended June 30, | | Change |
|---|---|---|---|
| | 2023 | 2022 | $ |
| Net cash used in operating activities | (127,989) | (132,027) | 4,038 |
| Net cash used in investing activities | (11,252) | (143,869) | 132,617 |
| Net cash used in financing activities | (5,379) | (2,240) | (3,139) |
| Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash | (3,707) | (5,144) | 1,437 |
| Net decrease in cash, cash equivalents and restricted cash | (148,327) | (283,280) | 134,953 |

In the following sections, we discuss our cash flows by activity for the first half of 2023 compared to the first half of 2022.

***Net Cash Used in Operating Activities***

Net cash used in operating activities decreased by $4.0 million to $128.0 million in the first half of 2023, primarily due to a decrease of $50.3 million in net loss, partially offset by a decrease of $35.2 million in net changes in operating assets and liabilities and a decrease of $11.1 million in adjustments to reconcile net loss to net cash used in operating activities.

***Net Cash Used in Investing Activities***

Net cash used in investing activities decreased by $132.6 million to $11.3 million in the first half of 2023, primarily due to a decrease of $160.3 million in purchases of short-term investments, an increase of $10.0 million in proceeds from sale of intellectual property, and a decrease of $8.3 million in purchases of property and equipment, partially offset by a decrease of $45.5 million in proceeds from the maturity of short-term investments.

***Net Cash Used in Financing Activities***

Net cash used in financing activities increased by $3.1 million to $5.4 million in the first half of 2023, primarily due to a decrease of $2.9 million in proceeds from exercises of stock options and an increase of $0.3 million in employee taxes paid related to net share settlement of equity awards.

***Effect of Exchange Rates on Cash***

We have substantial operations in mainland China, which generate a significant amount of RMB-denominated cash from product sales and require a significant amount of RMB-denominated cash to pay our obligations. Since the reporting currency of the Company is the U.S. dollar, periods of volatility in exchange rates may have a significant impact on our consolidated cash balances.

***Operating Capital Requirements***

We expect our expenses to increase significantly in connection with our ongoing activities, particularly as we continue to commercialize our approved products, continue our research and development efforts related to our clinical and pre-clinical-

stage product candidates, and initiate additional clinical trials of, and seek and/or expand regulatory approval for our products and product candidates. In addition, if we obtain regulatory approval for any additional product candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales, and distribution. In particular, if more of our product candidates are approved, additional costs may be substantial as we may have to, among other things, modify or increase the production capacity at our current manufacturing facilities or contract with third-party manufacturers and increase our commercial workforce. We have incurred, and may continue to incur, expenses as we create additional infrastructure to support our operations. Our liquidity and financial condition may be materially and adversely affected by negative net cash flows, and we cannot ensure that we will have sufficient cash from other sources to fund our operations. We will likely need to obtain additional funding in connection with our continuing operations through public or private equity offerings, debt financing, collaborations or licensing arrangements, or other sources. If we are unable to raise capital when needed or on acceptable terms, we could incur losses and be forced to delay, reduce, or terminate our research and development programs or commercialization efforts.

Our future capital requirements will depend on a number of factors, including:

- the cost and timing of future commercialization activities for our products and product candidates for which we receive regulatory approval;
- the pricing of and product revenues received, if any, from future commercial sales of our approved products and any other products for which we receive regulatory approval;
- the scope, progress, timing, results, and costs of clinical development of our products in additional indications, if any;
- the scope, progress, timing, results, and costs of researching and developing our product candidates and conducting pre-clinical and clinical trials;
- the cost, timing, and outcome of seeking, obtaining, maintaining, and expanding regulatory approval of our products and product candidates;
- our ability to establish and maintain strategic partnerships, including collaboration, licensing, or other arrangements and the economic and other terms, timing, and success of such arrangements;
- the cost, timing, and outcome of preparing, filing, and prosecuting patent applications, maintaining and enforcing our intellectual property rights, and defending any intellectual property related claims;
- the extent to which we acquire or in-license other product candidates and technologies and the economic and other terms, timing, and success of such collaboration and licensing arrangements;
- cash requirements of any future acquisitions;
- the number, characteristics, and development requirements of the product candidates we pursue;
- resources required to develop and implement policies and processes to promote ongoing compliance with applicable healthcare laws and regulations;
- costs required to confirm that our and our partners' business arrangements with third parties comply with applicable healthcare laws and regulations;
- our headcount growth and associated costs; and
- the costs of operating as a public company in both the United States and Hong Kong.

***Contractual Obligations and Commitments***

As of June 30, 2023, purchase commitments amounted to $3.9 million, which is related to purchase of property and equipment contracted and expected to be incurred within one year. We do not have any other purchase commitments beyond one year.

## Disclosures About Market Risk

***Foreign Exchange Risk***

Renminbi, or RMB, is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China ("PBOC"), controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Company included aggregated amounts of RMB158.7 million and RMB316.8 million, which were denominated in RMB, representing 3% and 5% of the cash and cash equivalents as of June 30, 2023 and December 31, 2022, respectively.

While our financial statements are presented in U.S. dollars, our business mainly operates in mainland China with a significant portion of our transactions settled in RMB, and as such, we do not believe that we currently have significant direct foreign exchange risk and have not used derivative financial instruments to hedge our exposure to such risk. Although, in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs and ordinary shares will be affected by the exchange rate between the U.S. dollar and the RMB and between the HK dollar and the RMB, respectively, because the value of our business is effectively denominated in RMB, while ADSs and ordinary shares are traded in U.S. dollars and HK dollars, respectively.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in Greater China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the Chinese government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the revised policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in a more than 20% appreciation of the RMB against the U.S. dollar in the following three years. Between July 2008 and June 2010, this appreciation halted, and the exchange rate between the RMB and U.S. dollar remained within a narrow band. In June 2010, the PBOC announced that the Chinese government would increase the flexibility of the exchange rate, and thereafter allowed the RMB to appreciate slowly against the U.S. dollar within the narrow band fixed by the PBOC. However, in August 2015, the PBOC significantly devalued the RMB.

The value of our ADSs and our ordinary shares will be affected by the foreign exchange rates between U.S. dollars, HK dollars, and the RMB. For example, to the extent that we need to convert U.S. dollars or HK dollars into RMB for our operations or if any of our arrangements with other parties are denominated in U.S. dollars or HK dollars and need to be converted into RMB, appreciation of the RMB against the U.S. dollar or the HK dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars or HK dollars for the purpose of making payments for dividends on ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar or the HK dollar against the RMB would have a negative effect on the conversion amounts available to us.

Since 1983, the Hong Kong Monetary Authority ("HKMA") has pegged the HK dollar to the U.S. dollar at the rate of approximately HK$7.80 to US$1.00. However, there is no assurance that the HK dollar will continue to be pegged to the U.S. dollar or that the HK dollar conversion rate will remain at HK$7.80 to US$1.00. If the HK dollar conversion rate against the U.S. dollar changes and the value of the HK dollar depreciates against the U.S. dollar, our assets denominated in HK dollars will be adversely affected. Additionally, if the HKMA were to repeg the HK dollar to, for example, the RMB rather than the U.S. dollar, or otherwise restrict the conversion of HK dollars into other currencies, then our assets denominated in HK dollars will be adversely affected.

***Credit Risk***

Financial instruments that are potentially subject to significant concentration of credit risk consist of cash and cash equivalents, short-term investments, accounts receivable, and notes receivable.

The carrying amounts of cash and cash equivalents and short-term investments represent the maximum amount of loss due to credit risk. As of June 30, 2023 and December 31, 2022, we had cash and cash equivalents of $859.2 million and $1,008.5

million and short-term investments of $15.5 million and nil, respectively. We manage related credit risk by using major financial institutions located in mainland China and international financial institutions outside of mainland China which we believe are of high credit quality and through ongoing monitoring of their continued credit worthiness.

Accounts receivable are typically unsecured and are derived from product sales and collaborative arrangements. We manage credit risk related to our accounts receivable through ongoing monitoring of outstanding balances and limiting the amount of credit extended based upon payment history and credit worthiness. Historically, we have collected receivables from customers within the credit terms with no significant credit losses incurred. As of June 30, 2023, our two largest customers accounted for approximately 31% of our total accounts receivable collectively.

Certain accounts receivable balances are settled in the form of notes receivable. As of June 30, 2023, such notes receivable included bank acceptance promissory notes that are non-interest bearing and due within six months. These notes receivable were used to collect the receivables based on an administrative convenience, given these notes are readily convertible to known amounts of cash. In accordance with the sales agreements, whether to use cash or bank acceptance promissory notes to settle the receivables is at our discretion, and this selection does not impact the agreed contractual purchase prices.

***Inflation Risk***

In recent years, mainland China has not experienced significant inflation. Although the global economy, including the U.S. economy, experienced rising inflation in recent years, which can increase the costs of our products and product candidates purchased from third parties and, as a result, adversely affect our results of operations, inflation has not had a material impact on our results of operations. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in mainland China or in other countries in which our third-party partners operate.

## Gearing Ratio

The gearing ratio of the Company, which is calculated by dividing total interest-bearing loans by total shareholders' equity as of the end of the period, was nil as of both June 30, 2023 and December 31, 2022 because we did not have any interest-bearing loans.

## Significant Investments Held

Except the equity investment as disclosed in Note 2 to the unaudited condensed consolidated financial statements, we did not hold any significant investments as of June 30, 2023 and December 31, 2022.

## Future Plans for Material Investments and Capital Assets

We do not have any future plans for material investments or capital assets as of June 30, 2023.

## Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the first half of 2023, we did not have any material acquisitions and disposals of subsidiaries, associates, and joint ventures.

## Employee and Remuneration Policy

As of June 30, 2023, we had a global team of 2,057 full-time employees, which increased from 2,036 full-time employees as of January 31, 2023.

The remuneration policy and package of our employees are periodically reviewed by the Compensation Committee of the Board. The packages were set by benchmarking with companies in similar industries and companies with similar complexity and size. In addition to cash compensation and benefits, we may issue share options, share appreciation rights, restricted shares, unrestricted shares, share units including restricted share units, performance awards, and other types of awards to our employees in accordance with our equity incentive plans. We also provide comprehensive training programs to our employees to meet their various development needs, including leadership development programs, upskills programs and on-

the-job trainings. The total remuneration cost incurred by the Company was $141.4 million and $129.5 million for the first half of 2023 and 2022, respectively.

## Pledge of Assets

As of June 30, 2023 and December 31, 2022, we did not have any pledges of assets.

## Contingent Liabilities

As of June 30, 2023 and December 31, 2022, we did not have any material contingent liabilities. See Note 17 to the unaudited condensed consolidated financial statements for contractual obligations under licenses and collaborative agreements.

## Interim Dividend

The Board did not recommend any interim dividend for the first half of 2023 and 2022.

## Recent Accounting Pronouncements

See Note 2 to the unaudited condensed consolidated financial statements included in this announcement regarding recent accounting pronouncements.

# OTHER INFORMATION

## Compliance with the Corporate Governance Code

The Company's corporate governance practices are based on the principles and code provisions set forth in Part 2 of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the HK Listing Rules.

Pursuant to code provision C.2.1 of the CG Code, companies listed on the Hong Kong Stock Exchange are expected to comply with, but may choose to deviate from, the requirement that the responsibilities of the Chairperson and the Chief Executive Officer should be segregated and should not be performed by the same individual. Our Founder and Chief Executive Officer, Dr. Samantha Du, currently serves as the Chairperson of the Board. The Board believes that Dr. Samantha Du is the director best suited to identify strategic opportunities for the Company and areas of focus for the Board due to her extensive understanding of our business and her deep knowledge of our industry. The Board also believes that the combined role of Chairperson and Chief Executive Officer promotes effective execution of strategic initiatives and facilitates the flow of information between management and the Board. To further enhance our corporate governance, the Board has established a lead independent director and appointed Dr. John Diekman to serve in this important position. While the roles of Chairperson of the Board and Chief Executive Officer are combined, our lead independent director will, among other things, lead meetings of the Board when the Chairperson is not present, serve as liaison between the Chairperson and independent directors, have the authority to call meetings of the independent directors, and, if requested by a significant portion of our shareholders, be available for consultation and direct communication. While the roles of Chairperson of the Board and Chief Executive officer are combined, the Board believes that the balance of power and authority on the Board will not be impaired due to this arrangement. The Board will continue to review the corporate governance structure and practices from time to time and shall make changes the Board considers appropriate.

Except as disclosed above, during the Reporting Period and up to the date of this announcement, the Company has complied with the provisions set out in Part 2 of the CG Code.

The Board will continue to periodically review and monitor its corporate governance practices for compliance with the CG Code and maintain a high standard of corporate governance practices of the Company.

## Compliance with Policies Equivalent to the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted its own securities dealing policies on terms no less exacting than those in the Model Code for Securities Transactions as set forth in Appendix 10 to the HK Listing Rules (the "Model Code") regarding director dealings in the securities of the Company.

Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standards set forth in the Company's securities dealing policies during the Reporting Period.

## Purchase, Sale, or Redemption of the Company's Listed Securities

During the Reporting Period, the Company did not purchase, sell, or redeem any of the Company's listed securities.

## Disclosure of Changes in Directors' Information Pursuant to Rule 13.51(B)(1) of the HK Listing Rules

Upon specific enquiry by the Company and following confirmations from Directors, except as disclosed hereunder, there is no change in the information of Directors required to be disclosed pursuant to Rule 13.51(B)(1) of the HK Listing Rules during the Reporting Period. The changes in Directors' information is set forth below.

| Directors | Changes in Positions held with the Company |
|---|---|
| Mr. Michel Vounatsos | Appointed as an independent director of the Company, chairperson of the Commercial Committee, and a member of the Research and Development Committee with effect from January 7, 2023 |
| Mr. William Lis | Appointed as a member of the Commercial Committee with effect from January 13, 2023 |
| Mr. Leon O. Moulder, Jr. | Appointed as a member of the Commercial Committee with effect from January 13, 2023 |

The Compensation Committee of the Board actively reviews and assesses the executive compensation program in light of the highly competitive employment environment and the challenge of recruiting, motivating, and retaining executives. Please refer to the definitive proxy statement/circular for the 2023 Annual General Meeting dated April 28, 2023 for a discussion of the Company's executive compensation program and the non-employee director compensation policy.

## USE OF NET PROCEEDS

### Use of Net Proceeds from April 2021 Offering

In April 2021, the Company issued 224,000 ordinary shares (2,240,000 ordinary shares after the share subdivision effective as of March 30, 2022 (the "**Share Subdivision**")) of the Company at a price of HK$1,164.20 per share (HK$116.42 per ordinary share after the Share Subdivision) and 5,492,400 ADSs at a price of US$150.00 per ADS for aggregate cash consideration (before deducting underwriting discounts and commissions and other offering expenses) of approximately $857.5 million.

As of the the date of this announcement, there has been no change in the intended use of net proceeds raised from this offering, which amounted to approximately $818.0 million, as disclosed in the announcement of the Company dated April 21, 2021:

- Approximately 30% of the net proceeds to fund new business and corporate development and licensing opportunities;
- Approximately 30% of the net proceeds to complete clinical trials and advance new drug candidates;
- Approximately 20% of the net proceeds to expand the Company's commercialization efforts;
- Approximately 15% of the net proceeds to enhance the Company's global pipeline; and
- Approximately 5% of the net proceeds for working capital and other general corporate purposes.

The following table sets forth a summary of the utilization of the net proceeds from this offering as of June 30, 2023 ($ in millions):

| **Purpose** | **Percentage to total amount** | **Net proceeds from the offering** | **Actual use of proceeds up to June 30, 2023** | **Unutilized amount as of June 30, 2023** |
|---|---|---|---|---|
| Fund new business and corporate development and licensing opportunities | 30% | 245.4 | - | 245.4 |
| Complete clinical trials and advance new drug candidates | 30% | 245.4 | 198.4 | 47.0 |
| Expand the Company's commercialization efforts | 20% | 163.6 | 149.6 | 14.0 |
| Enhance the Company's global pipeline | 15% | 122.7 | - | 122.7 |

| | | | | |
|---|---|---|---|---|
| Working capital and other general corporate purposes | 5% | 40.9 | - | 40.9 |
| **Total** | 100% | 818.0 | 348.0 | 470.0 |

The Company plans to gradually utilize the remaining net proceeds from the April 2021 offering in accordance with such intended purpose depending on actual business, which is expected to be fully utilized by the end of 2026.

## Use of Net Proceeds from the Global Offering

Dealings in ordinary shares on the Hong Kong Stock Exchange commenced on September 28, 2020. The net proceeds raised from the global offering ("Global Offering") as described in the prospectus of the Company dated September 17, 2020 (the "Prospectus"), after deduction of the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the Global Offering, were approximately HK$6,636.2 million ($850.8 million). As of the date of this announcement, there has been no change in the intended use of net proceeds and the expected timeline as previously disclosed in the section "Use of Proceeds" in the Prospectus. The net proceeds received by the Company from the Global Offering will be used for the following purposes:

- Approximately 16.0% will be allocated for ZEJULA to seek indication expansion and hire high-caliber R&D staff dedicated to its development, and to develop and improve the Company's manufacturing facilities to bring ZEJULA to commercialization;

- Approximately 6.2% will be used to fund ongoing and planned clinical trials and preparation for registration filings of Tumor Treating Fields in multiple solid tumor cancer indications;

- Approximately 16.0% will be used for ZEJULA to enhance the Company's commercialization capabilities through increasing its sales and marketing headcounts, among other efforts;

- Approximately 8.0% will be used to strengthen commercialization efforts for Tumor Treating Fields through recruiting key talents in relevant indications to drive sales and future potential product launch;

- Approximately 11.8% will be used to fund the Company's ongoing and planned clinical trials and preparation for registration filings of other drug candidates in the pipeline, especially late-stage drug candidates;

- Approximately 25.0% will be used to explore new global licensing and collaboration opportunities and bring in potentially global best-in-class/ first-in-class assets with clinical validation, synergistic with the Company's current pipeline, and aligned to its expertise;

- Approximately 7.0% will be used to continue investing in and expanding the Company's internal discovery pipeline and recruit and train talent globally; and

- Approximately 10.0% will be used to fund working capital and other general corporate purposes.

The following table presents a summary of the utilization of the net proceeds from the Global Offering as of June 30, 2023 ($ in millions):

| **Purpose** | **Percentage to total amount** | **Net proceeds from the offering** | **Actual use of proceeds up to June 30, 2023** | **Unutilized amount as of June 30, 2023** |
|---|---|---|---|---|
| For ZEJULA to seek indication expansion and hire high-caliber R&D staff dedicated to its development, and to develop and improve the Company's manufacturing facilities to bring ZEJULA to commercialization | 16.0% | 136.1 | 59.9 | 76.2 |
| Fund ongoing and planned clinical trials and preparation for registration filings of Tumor Treating Fields in multiple solid tumor cancer indications | 6.2% | 52.7 | 18.8 | 33.9 |

| | | | | |
|---|---|---|---|---|
| For ZEJULA to enhance the Company's commercialization capabilities through increasing its sales and marketing headcounts, among other efforts | 16.0% | 136.1 | 107.4 | 28.7 |
| Strengthen commercialization efforts for Tumor Treating Fields through recruiting key talents in relevant indications to drive sales and future potential product launch | 8.0% | 68.1 | 47.3 | 20.8 |
| Fund the Company's ongoing and planned clinical trials and preparation for registration filings of other drug candidates in the pipeline, especially late-stage drug candidates | 11.8% | 100.4 | 100.4 | - |
| Explore new global licensing and collaboration opportunities and bring in potentially global best-in-class/ first-in-class assets with clinical validation, synergistic with the Company's current pipeline and aligned to its expertise | 25.0% | 212.7 | 187.6 | 25.1 |
| Continue investing in and expanding the Company's internal discovery pipeline and recruit and train talent globally | 7.0% | 59.6 | 48.1 | 11.5 |
| Fund working capital and other general corporate purposes | 10.0% | 85.1 | 54.4 | 30.7 |
| **Total** | 100% | 850.8 | 623.9 | 226.9 |

The Company plans to gradually utilize the remaining net proceeds from the Global Offering in accordance with such intended purpose depending on actual business, which is expected to be fully utilized by the end of 2026, except that we may not need to fully utilize the funds designated for ZEJULA to seek indication expansion and hire high-caliber R&D staff dedicated to its development, and to develop and improve the Company's manufacturing facilities to bring ZEJULA to commercialization, because such funds may not be necessary given our commercialization of ZEJULA. We will continue to monitor our use of proceeds and may allocate this portion of funds to other purposes as set forth in the summary above for the Global Offering.

## Audit Committee Review of Financial Statements

The Audit Committee of the Board oversees the accounting and financial reporting processes of the Company and the audits of the Company's financial statements, including but not limited to assisting the Board in its oversight of the integrity of the consolidated financial statements of the Company, the Company's compliance program, and the Company's risk management and internal control over financial reporting. As of the date of this announcement, the Audit Committee consists of three members, Mr. Scott W. Morrison, Dr. John Diekman, and Mr. Peter Wirth, all of whom are independent directors. Mr. Morrison is the chairperson of the Audit Committee.

The Audit Committee has reviewed the unaudited consolidated financial statements and interim results of the Company for the six months ended June 30, 2023. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal controls with members of senior management and the external auditors of the Company, KPMG LLP and KPMG.

## Other Board Committees

In addition to the Audit Committee, the Board has a Compensation Committee, a Nominating and Corporate Governance Committee, a Research and Development Committee, and a Commercial Committee.

## Important Events after the Reporting Period

No important events affecting the Company occurred since June 30, 2023 and up to the date of this announcement.

## Publication of Interim Results and Interim Report

This interim results announcement is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Company (www.zailaboratory.com). The interim report of the Company for the six months ended June 30, 2023 will be published on the aforesaid websites and dispatched to the Company's shareholders in due course.

By order of the Board
**Zai Lab Limited**
**Samantha Du**
*Director, Chairperson, and Chief Executive Officer*

Hong Kong, August 30, 2023

*As at the date of this announcement, the board of directors of the Company comprises Dr. Samantha Du as a director, and Dr. Kai-Xian Chen, Dr. John Diekman, Richard Gaynor, M.D., Ms. Nisa Leung, Mr. William Lis, Mr. Scott W. Morrison, Mr. Leon O. Moulder, Jr., Mr. Michel Vounatsos, and Mr. Peter Wirth as independent directors.*

* *For identification only*