

The following is the text of a report set out on pages I-1 to I-109, received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WUXI XDC CAYMAN INC. AND MORGAN STANLEY ASIA LIMITED, GOLDMAN SACHS (ASIA) L.L.C. AND J.P. MORGAN SECURITIES (FAR EAST) LIMITED

Introduction

We report on the historical financial information of WuXi XDC Cayman Inc. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages I-4 to I-109, which comprises the consolidated statements of financial position of the Group as at December 31, 2020, 2021 and 2022, and June 30, 2023, the statements of financial position of the Company as at December 31, 2020, 2021 and 2022, and June 30, 2023, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended December 31, 2020, 2021 and 2022, and six months ended June 30, 2023 (the “Track Record Period”) and material accounting policy information and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-109 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “Document”) in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

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

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Group’s and the Company’s financial positions as at December 31, 2020, 2021 and 2022, and June 30, 2023 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for six months ended June 30, 2022 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which contains information about the dividends declared and paid by the Company in respect of the Track Record Period and states that no dividend was declared or paid by the Company since its incorporation.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong

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HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

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

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

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

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended December 31,			Six months ended June 30,	
		2020	2021	2022	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)
Revenue	6	96,353	311,131	990,423	329,436	993,468
Cost of services		(88,272)	(197,637)	(729,340)	(225,481)	(764,068)
Gross profit		8,081	113,494	261,083	103,955	229,400
Other income	7	41,446	8,966	26,152	18,812	39,579
Other gains and losses.	8	(2,711)	(855)	46,672	25,679	4,461
Impairment losses (recognized) reversed, under expected credit loss model, net of reversal	10	(289)	(10,558)	(43,369)	2,976	24,382
Selling and marketing expenses . .		(478)	(2,028)	(8,769)	(4,152)	(5,823)
Administrative expenses		(9,608)	(27,858)	(49,210)	(15,248)	(42,739)
[REDACTED] expenses		—	—	—	—	(7,374)
Research and development expenses		(4,075)	(13,815)	(33,842)	(11,059)	(29,749)
Finance costs	9	—	(493)	(2,916)	(1,573)	(569)
Profit before tax	10	32,366	66,853	195,801	119,390	211,568
Income tax expenses	11	(6,067)	(11,923)	(40,070)	(21,123)	(34,354)
Profit for the year/period		26,299	54,930	155,731	98,267	177,214
Other comprehensive income (expense)						
<i>Items that may be reclassified subsequently to profit or loss:</i>						
Fair value gain(loss) on hedging instruments designated in cash flow hedges, net of income tax.		1,668	499	(3,313)	(4,025)	1,146
Exchange gain arising on translation of foreign operations		—	—	—	—	4,635
Other comprehensive income (expense) for the year/period		1,668	499	(3,313)	(4,025)	5,781
Total comprehensive income for the year/period.		27,967	55,429	152,418	94,242	182,995
Earnings per share						
Basic (RMB)	13	0.04	0.09	0.18	0.14	0.18
Diluted (RMB)		0.04	0.09	0.18	0.14	0.17

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at December 31,			As at
		2020	2021	2022	June 30,
		RMB’000	RMB’000	RMB’000	2023
					RMB’000
Non-current assets					
Property, plant and equipment	15	303,205	335,684	798,575	987,555
Investment property	16	—	13,215	12,812	12,610
Right-of-use assets	17	—	2,223	5,280	4,529
Goodwill	18	—	215,193	215,193	215,193
Intangible assets	20	4,808	60,990	50,648	57,047
Deferred tax assets	19	387	1,995	11,540	8,557
Other long term deposits and prepayments		150	150	—	368
		<u>308,550</u>	<u>629,450</u>	<u>1,094,048</u>	<u>1,285,859</u>
Current assets					
Inventories	22	7,678	23,786	62,934	47,403
Trade and other receivables	24	44,060	150,236	505,604	757,245
Contract assets	25	1,028	10,717	17,309	24,665
Contract costs	23	13,875	36,690	80,713	63,134
Tax recoverable		2,663	—	—	—
Derivative financial assets	30	2,224	2,549	799	—
Financial assets at fair value through profit or loss (“FVTPL”)	21	—	—	400,000	—
Bank balances and cash	26	28,390	26,325	334,972	561,644
		<u>99,918</u>	<u>250,303</u>	<u>1,402,331</u>	<u>1,454,091</u>
Current liabilities					
Trade and other payables	27	32,080	818,653	773,313	773,149
Loans from related parties	28	—	22,343	71,144	—
Contract liabilities	29	151	10,020	151,450	232,418
Income tax payable		—	5,225	11,506	30,457
Lease liabilities	31	—	2,249	4,413	2,828
Derivative financial liabilities	30	—	—	2,147	—
		<u>32,231</u>	<u>858,490</u>	<u>1,013,973</u>	<u>1,038,852</u>
Net current assets (liabilities)		<u>67,687</u>	<u>(608,187)</u>	<u>388,358</u>	<u>415,239</u>
Total assets less current liabilities		<u>376,237</u>	<u>21,263</u>	<u>1,482,406</u>	<u>1,701,098</u>
Non-current liabilities					
Deferred tax liabilities	19	556	382	—	—
Lease liabilities	31	—	—	1,627	2,477
Net assets		<u>375,681</u>	<u>20,881</u>	<u>1,480,779</u>	<u>1,698,621</u>
Capital and reserves					
Share capital	32	—	—	319	319
Reserves		375,681	20,881	1,480,460	1,698,302
Total equity		<u>375,681</u>	<u>20,881</u>	<u>1,480,779</u>	<u>1,698,621</u>

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STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at December 31,			As at
		2020	2021	2022	June 30,
		RMB’000	RMB’000	RMB’000	2023
					RMB’000
Non-current asset					
Investment in subsidiaries	41	—	—	1,334,030	1,364,229
Current assets					
Other receivables	24	—	—	—	1,054
Bank balances and cash		—	329	591	54
		—	329	591	1,108
Current liability					
Other payables	27	—	969	1,812	10,031
Net current liability		—	(640)	(1,221)	(8,923)
Total assets less current liability/ Net (liabilities) assets					
		—	(640)	1,332,809	1,355,306
Capital and reserves					
Share capital	32	—	—	319	319
Reserves	42	—	(640)	1,332,490	1,354,987
Total (deficit) equity		—	(640)	1,332,809	1,355,306

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Merger reserve (note ii)	Special reserve (note iii)	Other reserve (note v)	Statutory reserve (note i)	Equity-settled share-based compensation reserve (note iv)	Cash flow hedging reserve	Foreign currency translation reserve	(Accumulated loss) Retained earnings	Total
As at January 1, 2020.	—	—	275,048	16,062	885	73	—	—	—	(8,989)	283,079
Profit for the year	—	—	—	—	—	—	—	—	—	26,299	26,299
Other comprehensive income for the year											
– Fair value adjustments on cash flow hedges.	—	—	—	—	—	—	—	1,668	—	—	1,668
Total comprehensive income for the year	—	—	—	—	—	—	—	1,668	—	26,299	27,967
Transfer to statutory reserve	—	—	—	—	—	570	—	—	—	(570)	—
Recognition of equity-settled share-based compensation.	—	—	—	—	6,476	—	—	—	—	—	6,476
Capital contribution from equity holders of XDC Wuxi (note ii(a)).	—	—	69,116	—	—	—	—	—	—	—	69,116
Deemed contribution from equity holders of the Company (note ii(c)).	—	—	2,852	—	—	—	—	—	—	—	2,852
Net distribution to Biologics Shanghai (note iii(a)).	—	—	—	(13,809)	—	—	—	—	—	—	(13,809)
Profit for the year from BCD Business Unit transferred to special reserve (note iii(b)).	—	—	—	18,736	—	—	—	—	—	(18,736)	—
As at December 31, 2020	—	—	347,016	20,989	7,361	643	—	1,668	—	(1,996)	375,681
Profit for the year	—	—	—	—	—	—	—	—	—	54,930	54,930
Other comprehensive income for the year											
– Fair value adjustments on cash flow hedges.	—	—	—	—	—	—	—	499	—	—	499
Total comprehensive income for the year	—	—	—	—	—	—	—	499	—	54,930	55,429

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	Share capital	Share premium	Merger reserve (note ii)	Special reserve (note iii)	Other reserve (note v)	Statutory reserve (note i)	Equity-settled share-based compensation reserve (note iv)	Cash flow hedging reserve	Foreign currency translation reserve	(Accumulated loss) Retained earnings	Total
Transfer to statutory reserve	—	—	—	—	—	5,558	—	—	—	(5,558)	—
Recognition of equity-settled share-based compensation	—	—	—	—	22,157	—	—	—	—	—	22,157
Deemed distribution to equity holders of the company (note ii(b))	—	—	(404,413)	—	—	—	—	—	—	—	(404,413)
Deemed contribution from equity holders of the Company (note ii(c))	—	—	3,650	—	—	—	—	—	—	—	3,650
Net distribution to Biologics Shanghai (note iii(a))	—	—	—	(31,623)	—	—	—	—	—	—	(31,623)
Profit for the year from BCD Business Unit transferred to special reserve (note iii(b))	—	—	—	27,242	—	—	—	—	—	(27,242)	—
As at December 31, 2021	—	—	(53,747)	16,608	29,518	6,201	—	2,167	—	20,134	20,881
Profit for the year	—	—	—	—	—	—	—	—	—	155,731	155,731
Other comprehensive expense for the year	—	—	—	—	—	—	—	—	—	—	—
– Fair value adjustments on cash flow hedges	—	—	—	—	—	—	—	(3,313)	—	—	(3,313)
Total comprehensive (expense) income for the year	—	—	—	—	—	—	—	(3,313)	—	155,731	152,418
Transfer to statutory reserve	—	—	—	—	—	6,666	—	—	—	(6,666)	—
Recognition of equity-settled share-based compensation	—	—	—	—	10,876	—	27,750	—	—	—	38,626
Shares fully paid (Note 32)	319	1,285,143	—	—	—	—	—	—	—	—	1,285,462
Deemed distribution to Biologics Shanghai (note iii(a))	—	—	—	(16,608)	—	—	—	—	—	—	(16,608)

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	Share capital	Share premium	Merger reserve (note ii)	Special reserve (note iii)	Other reserve (note v)	Statutory reserve (note i)	Equity-settled share-based compensation reserve (note iv)	Cash flow hedging reserve	Foreign currency translation reserve	(Accumulated loss) Retained earnings	Total
As at December 31, 2022	319	1,285,143	(53,747)	—	40,394	12,867	27,750	(1,146)	—	169,199	1,480,779
Profit for the period	—	—	—	—	—	—	—	—	—	177,214	177,214
Other comprehensive income for the period											
– Fair value adjustments on cash flow hedges	—	—	—	—	—	—	—	1,146	—	—	1,146
– Exchange gain arising on translation of foreign operations	—	—	—	—	—	—	—	—	4,635	—	4,635
Total comprehensive income for the period	—	—	—	—	—	—	—	1,146	4,635	177,214	182,995
Recognition of equity-settled share-based compensation	—	—	—	—	4,702	—	30,145	—	—	—	34,847
As at June 30, 2023	<u>319</u>	<u>1,285,143</u>	<u>(53,747)</u>	<u>—</u>	<u>45,096</u>	<u>12,867</u>	<u>57,895</u>	<u>—</u>	<u>4,635</u>	<u>346,413</u>	<u>1,698,621</u>
As at December 31, 2021	—	—	(53,747)	16,608	29,518	6,201	—	2,167	—	20,134	20,881
Profit for the period	—	—	—	—	—	—	—	—	—	98,267	98,267
Other comprehensive expense for the period											
– Fair value adjustments on cash flow hedges	—	—	—	—	—	—	—	(4,025)	—	—	(4,025)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	(4,025)	—	98,267	94,242
Recognition of equity-settled share-based compensation	—	—	—	—	8,804	—	1,791	—	—	—	10,595
Shares fully paid (Note 32)	319	1,285,143	—	—	—	—	—	—	—	—	1,285,462
Deemed distribution to Biologics Shanghai (note iii(a))	—	—	—	(16,608)	—	—	—	—	—	—	(16,608)
As at June 30, 2022 (unaudited)	<u>319</u>	<u>1,285,143</u>	<u>(53,747)</u>	<u>—</u>	<u>38,322</u>	<u>6,201</u>	<u>1,791</u>	<u>(1,858)</u>	<u>—</u>	<u>118,401</u>	<u>1,394,572</u>

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Notes:

- i. In accordance with the Articles of Association of all subsidiaries established in the People’s Republic of China (the “PRC”), they are required to transfer 10% of the profit after tax to the statutory reserve until the reserve reaches 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years’ losses, expand the existing operations or convert into additional capital of the subsidiaries.
- ii. Merger reserve as of January 1, 2020 represents the capital contribution in WuXi XDC Co., Ltd. (“XDC Wuxi”) by the then shareholders before the transfer of XDC Wuxi (as set out in Note 2). The amounts recorded in merger reserve during the Track Record Period are resulted from the following movements:
 - a. The movement represents additional capital injection into XDC Wuxi by the then shareholders before the transfer of XDC Wuxi.
 - b. The amount represents consideration paid/payable by the Group for acquisition of XDC Wuxi from the then shareholders.
 - c. The movement represents administrative service cost borne on behalf of XDC Wuxi by fellow subsidiaries that the then shareholders did not demand repayment, hence it was treated as a deemed contribution from equity holders of the Company.
- iii. Historically, part of the Group’s principal business, which is discovery and development platform for antibody drug conjugates, was carried out by WuXi Biologics (Shanghai) Co., Ltd. (“Biologics Shanghai”), a wholly-owned subsidiary of WuXi Biologics (Cayman) Inc. (“Biologics Cayman”) during the Track Record Period until, as part of the Transfers (as defined in Note 2), Biologics Shanghai ceased to operate discovery and development service for antibody drug conjugates (the “BCD Business Unit”) and transferred to WuXi XDC (Shanghai) Co., Ltd. (“XDC Shanghai”) all relevant assets and liabilities related specifically to the discovery and development service (the “Business Transfer”), as further disclosed in Note 2. The special reserve reflects reserve movements related to the operations of the BCD Business Unit.
 - a. The net distribution to Biologics Shanghai represents the funding generated by the BCD Business Unit and retained in Biologics Shanghai prior to the Business Transfer.
 - b. The profit in respect of the operations of the BCD Business Unit carried out by Biologics Shanghai prior to the Business Transfer was legally belonged to Biologics Shanghai. As such profit is non-distributable, the net profit in respect of the BCD Business Unit was transferred to special reserve.
- iv. The amount represents the equity-settled share-based compensation in respect of share option for shares of Company granted by the Group to certain directors and employees of the Group for their services rendered to the Group as set out in Note 38.
- v. The amount represents the equity-settled share-based compensation in respect of share options for shares of Biologics Cayman, the ultimate holding company of the Company granted by Biologics Cayman to certain directors and employees of the Group for their service rendered to the Group.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
OPERATING ACTIVITIES					
Profit before tax	32,366	66,853	195,801	119,390	211,568
Adjustments for:					
Finance costs	—	493	2,916	1,573	569
Interest income from banks	(31)	(28)	(4,612)	(562)	(3,424)
Depreciation of property, plant and equipment	13,008	16,279	17,510	8,092	17,740
Depreciation of investment property	—	168	403	202	202
Depreciation of right-of-use assets	—	846	4,959	2,710	1,856
Amortization of intangible assets	457	1,688	7,940	2,868	2,952
Impairment losses, net of reversal					
– trade and other receivables	289	10,556	43,220	(2,976)	(25,967)
– contract assets	—	2	149	—	1,585
Write down of inventories, net of reversal	—	363	120	58	273
Write down of contract costs	1	3,810	2,005	3,929	765
Net foreign exchange (gain) loss	(889)	331	(8,162)	(15,498)	223
Loss (gain) on disposal of property, plant and equipment	—	108	65	29	(19)
Share-based compensation expense	6,476	22,157	38,626	10,595	31,780
Operating cash flows before movements in working capital	51,677	123,626	300,940	130,410	240,103
Decrease (increase) in inventories	4,059	(16,471)	(39,268)	(11,563)	15,258
Increase in trade and other receivables	(13,136)	(116,732)	(592,233)	(154,009)	(224,622)
Decrease (increase) in other long-term deposits and prepayments	—	—	150	150	(368)
Decrease (increase) in contract assets	217	(9,689)	(9,776)	(5,938)	(8,941)
(Increase) decrease in contract costs	(9,392)	(20,716)	(45,481)	(32,335)	25,131
(Decrease) increase in trade and other payables	(3,696)	94,892	539,030	141,498	44,723
Increase in contract liabilities	103	9,869	141,587	97,858	80,968
Cash generated from operations	29,832	64,779	294,949	166,071	172,252
Income taxes paid	(8,978)	(5,643)	(43,133)	(13,112)	(12,621)
NET CASH FROM OPERATING ACTIVITIES	20,854	59,136	251,816	152,959	159,631

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	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
INVESTING ACTIVITIES					
Proceeds on disposal of property, plant and equipment	425	292	1,640	625	617
Payments for property, plant and equipment	(49,280)	(50,753)	(201,382)	(179,699)	(247,805)
Payments for intangible assets . . .	(3,600)	—	—	—	(10,000)
Payments for right-of-use assets . .	—	(1,154)	—	—	—
Receipt of bank interest income . . .	31	28	4,612	562	3,424
Payment for transfer of XDC Wuxi to the Group	—	—	(404,413)	(404,413)	—
Settlement of consideration payable for acquisition of Payload and Linker Business . . .	—	—	(280,000)	(280,000)	—
Settlement of consideration payable for acquisition of BCD Business Unit	—	—	—	—	(9,877)
Placement of financial assets at FVTPL	—	—	(400,000)	—	(1,068,843)
Withdrawal of financial assets at FVTPL	—	—	—	—	1,469,601
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(52,424)	(51,587)	(1,279,543)	(862,925)	137,117
FINANCING ACTIVITIES					
Loans from related parties	—	22,343	137,255	86,216	28,626
Repayments of loans from related parties	—	—	(88,454)	(37,315)	(99,770)
Repayments of lease liabilities . . .	—	—	(5,725)	(2,581)	(2,332)
Interest paid	—	—	(325)	(192)	(149)
Payment of accrued issue costs . . .	—	—	—	—	(104)
Capital contribution from equity holders of XDC Wuxi	69,116	—	—	—	—
Fully paid of issued shares	—	—	1,285,462	1,285,462	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	69,116	22,343	1,328,213	1,331,590	(73,729)
Net distribution to Biologics Shanghai by BCD Business Unit (note)	(13,809)	(31,623)	—	—	—
Effects of exchange rate changes	890	(334)	8,161	15,498	3,653
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,627	(2,065)	308,647	637,122	226,672
Cash and cash equivalents at beginning of the year/period . . .	3,763	28,390	26,325	26,325	334,972
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	28,390	26,325	334,972	663,447	561,644

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Note: Prior to transfer of the BCD Business Unit as detailed in Note 2, the BCD Business Unit was operated under Biologics Shanghai and no separate bank accounts were maintained for the BCD Business Unit. Accordingly, the net equity generated by the BCD Business Unit prior to completion of the Business Transfer that would not have an impact to the cash and cash equivalents of the Group, are reflected as “Net distribution to Biologics Shanghai by BCD Business Unit” in the consolidated statements of cash flows and were presented as “Net distribution to Biologics Shanghai” in the consolidated statements of changes in equity.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company is an exempted limited liability company incorporated in the Cayman Islands on December 14, 2020. The addresses of the registered office and principal place of business of the Company are disclosed in the section “Corporate Information” of the Document.

The Company is an investment holding company. During the Track Record Period, the subsidiaries of the Company as set out in Note 41 (hereinafter together with the Company collectively referred to as the “Group”) are principally engaged in research, discovery, development and manufacturing of the drug substances and drug products of antibody drug conjugates and other bioconjugates. Throughout the Track Record Period and as at the date of this report, Biologics Cayman is the ultimate holding company of the Company before and after the transfers and acquisition as set out in Note 2 below.

Items included in the financial statements of each of the Group’s entities are recorded using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Historical Financial Information is presented in RMB, which is also the functional currency of the Company.

No statutory financial statements of the Company has been prepared since its date of incorporation as it is incorporated in a jurisdiction where there are no statutory requirements.

2. HISTORY, GROUP REORGANIZATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with IFRSs issued by IASB and the convention applicable for the Transfers (as defined and detailed below).

History and Group Reorganization

To rationalize the structure of the Group in preparation for the separate [REDACTED] of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (the [REDACTED]), Biologics Cayman underwent a series of group reorganization as further described below. Apart from the acquisition of Payload and Linker Business as set out in note (vii) below, the Company and the then subsidiaries are under the common control of Biologics Cayman, the transfer of XDC Wuxi and BCD Business Unit (as defined below) (the “Transfers”) from Biologics Cayman to the Group had been accounted for as business combination involving entities and business under common control using the principle of merger accounting.

- i. WuXi XDC Hong Kong Limited (“XDC HK”) was incorporated on June 7, 2021 and is directly wholly-owned by the Company.
- ii. XDC Wuxi was established in the PRC on March 13, 2018 by Biologics Cayman Investments Limited (“Biologics Investment”), a subsidiary of Biologics Cayman. On July 9, 2021, XDC HK entered into a share transfer agreement with Biologics Investment for acquisition of 100% equity interest in XDC Wuxi from Biologics Investment at a cash consideration of approximately RMB404,413,100.
- iii. XDC Shanghai was established on March 31, 2021 and is directly wholly-owned by XDC Wuxi.

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- iv. Wuxi XDC (Changzhou) Co., Ltd. (“XDC Changzhou”) was established on July 2, 2021 and is directly wholly-owned by WuXi XDC.
- v. Wuxi XDC Singapore Private Limited (“XDC Singapore”) was established on November 16, 2022 and is directly wholly-owned by XDC HK.
- vi. On July 20, 2021, XDC Shanghai entered into a business transfer agreement with Biologics Shanghai, a subsidiary of Biologics Cayman, for transferring of the bioconjugate drug business unit (the “**BCD Business Unit**”) to XDC Shanghai (the “Business Transfer”) at a cash consideration of approximately RMB15,587,000.
- vii. On July 20, 2021, XDC Changzhou entered into a business acquisition agreement with a related party, Changzhou SynTheAll Pharmaceutical Co., Ltd. (“STA Changzhou”), which is a fellow subsidiary of the Company’s shareholder namely STA HK (as defined in Note 32), pursuant to which, XDC Changzhou had acquired the payload & linker business of STA Changzhou (the “**Payload & Linker Business**”) at a total cash consideration of RMB280 million. This acquisition is accounted for using the acquisition accounting method. The transaction was completed on October 1, 2021. The pre-acquisition financial information of Payload & Linker Business is set out in Note 36.

The consideration for the above Transfers and acquisition are determined by reference to valuation reports prepared by the professional valuer independent to the Group and Biologics Cayman, namely 北京中鋒資產評估有限責任公司 (Beijing Zhongfeng Assets Appraisal Company[#]) with registered address of 8th Floor Block B Zhongguancun Intellectual Property Mansion, Haidian South Road No. 21, Beijing.

Basis of preparation and presentation

The Transfers have been reflected in the Historical Financial Information of the Group using the principle of merger accounting as if they had been combined from the date when the Group, XDC Wuxi and BCD Business Unit first came under the control of Biologics Cayman. Accordingly, the assets and liabilities of XDC Wuxi and BCD Business Unit have been accounted for in the consolidated statements of financial position of the Group at their existing book values from Biologics Cayman’s perspective. No amount is recognized in respect of goodwill nor adjustment made in respect of differences between the fair values of XDC Wuxi and BCD Business Unit’s identifiable assets, liabilities and contingent liabilities and their carrying amounts. The consolidated statement of profit or loss and other comprehensive income includes the results of XDC Wuxi and BCD Business Unit since the date when they first came under the common control of Biologics Cayman.

Prior to completing the transfer of BCD Business Unit to the Group, it was a business unit operated under Biologics Shanghai, a wholly-owned subsidiary of Biologics Cayman. To the extent the assets, liabilities, income and expenses that are specifically identified to the BCD Business Unit, such items are included in the Historical Financial Information throughout the Track Record Period. To the extent the assets, liabilities, income and expenses that are impracticable to identify specifically, these items are allocated to the BCD Business Unit on the basis set out below (such items include certain selling and marketing expenses, administrative expenses and income tax expense). Items that do not meet the criteria above are not included in the Historical Financial Information of the Group.

[#] English name is for illustrative purpose only.

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Expenses which are impracticable to identify specifically to the BCD Business Unit are determined on the following basis: (1) included in the administrative expenses are administrative and support department staff salaries and staff welfare which were allocated based on the percentage of headcount of the BCD Business Unit to the total headcount of Biologics Shanghai; (2) selling and marketing expenses incurred by Biologics Shanghai’s marketing unit were allocated based on the percentage of BCD Business Unit’s revenue to Biologics Shanghai’s total revenue; and (3) income tax expense was calculated based on the tax rate of Biologics Shanghai as if the BCD Business Unit is a separate tax reporting entity. The directors of the Company believe that the method of allocation of the above expense items presents a reasonable basis of estimating what BCD Business Unit’s operating results would have been on a stand-alone basis for the Track Record Period. Other than those items mentioned above, all other items of assets and liabilities, income and expenses of BCD Business Unit are specifically identified.

Pursuant to the Transfers and acquisition set out above, the Company became the holding company of the companies now comprising the Group and Biologics Cayman continues to be the Company’s ultimate holding company.

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the accounting policies which conform with IFRSs issued by the IASB, which are effective for the Group’s accounting period beginning on January 1, 2023, throughout the Track Record Period.

New and amendments to IFRSs in issue but not yet effective

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

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendment to IFRS 16.	Lease Liability in a Sale and Leaseback ²
Amendments to IAS 1.	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1.	Non-current Liabilities with Covenants ²
Amendments to IAS 7 and IFRS 7.	Supplier Finance Arrangements ²
Amendments to IAS 21.	Lack of Exchangeability ³

1 Effective for annual periods beginning on or after a date to be determined
2 Effective for annual periods beginning on or after January 1, 2024
3 Effective for annual periods beginning on or after January 1, 2025

The directors of the Company anticipate that the application of the above new and amendments to IFRSs, will have no material impact on the Historical Financial Information in the foreseeable future.

4. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION AND MATERIAL ACCOUNTING POLICY INFORMATION

4.1 Basis of preparation of Historical Financial Information

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs issued by the IASB. For the purpose of preparation of Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4.2 Material accounting policy information

Basis of consolidation

The Historical Financial Information incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

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

Business combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organized workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

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For business combinations in which the acquisition date is on or after January 1, 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting issued by International Accounting Standards Board in March 2018 (the “Conceptual Framework”) except for transactions and events within the scope of IAS 37 or IFRIC 21, in which the Group applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognized.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale* and Discontinued Operations are measured in accordance with that standard; and
- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which the lease term ends within 12 months of the acquisition date. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less than any identified impairment loss on the statement of financial position of the Company.

Merger accounting for business combination involving businesses under common control

The Historical Financial Information incorporates the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party’s perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and the other comprehensive income include the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where there is a short period.

The Historical Financial Information is presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a service (or a bundle of services) that is distinct or a series of distinct services that are substantially the same.

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Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct service.

A contract asset represents the Group’s right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (i.e. fee-for-service (“FFS”)) contracts usually have multiple deliverable units, which are generally in the form of technical laboratory reports, samples and/or goods), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation.

The selection of the method to measure progress towards completion requires judgement and is based on the nature of the services to be provided. Depending on which better depicts the transfer of value to the customer, the Group measures its progress using either services transferred to the customer to date (output method) or cost-to-cost (input method).

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Output method:

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date (for example, service contracts in which the Group bills a fixed amount for each hour of service provided), the Group recognizes revenue in the amount to which the Group has the right to invoice.

Input method:

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognize revenue on the basis of the Group's costs incurred to date to the satisfaction of a performance obligation relative to the total expected costs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date (for example, service contracts in which the Group bills a fixed amount for each hour of service provided), the Group recognizes revenue in the amount to which the Group has the right to invoice.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

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Contract costs

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its service contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognizes an asset for these costs only if they meet all of the following criteria:

- (a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- (b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) the costs are expected to be recovered.

The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is also subject to impairment review.

Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application of IFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices and are accounted for by applying other applicable standards.

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Short-term leases

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

Right-of-use assets

The cost of right-of-use assets includes:

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

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

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within “investment property”.

Refundable rental deposits

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

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Lease liabilities

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

The lease payments include:

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

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period in which the event or condition that triggers the payment occurs.

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

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Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

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

Amounts due from lessees under finance leases are recognized as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases.

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

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Foreign currencies

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

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

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rate prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Research and other grants

Research and other grants are accounted for in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Research and other grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Research and other grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

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

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Pension obligations

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its qualifying staff’s wages as contributions to the schemes. Payments to such retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

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Short-term employee benefits

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

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

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees (including directors of the Company) are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of equity instruments that will eventually vest, with a corresponding increase in equity (equity-settled share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled share-based compensation reserve.

When the share options are exercised, the amount previously recognized in equity-settled share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in equity-settled share-based compensation reserve will continue to be held in equity-settled share-based compensation reserve.

Equity instruments granted by the ultimate holding company to employees of the Group

The grant by the ultimate holding company of equity instruments under its employee stock incentive plan to the employees of the Group (including directors of the Company) is treated as equity-settled share-based payments in the Historical Financial Information. An expense for the grant date fair value of the equity instruments under the employee stock incentive plan is recognized over the vesting period of the instruments, with a corresponding increase in equity. The increase in equity is treated as a deemed capital contribution into the Group and is included in other reserve.

Restricted share award payment transactions

For shares granted by the ultimate holding company under WXB Restricted Share Award Scheme and WXB Global Partner Program Share Scheme (“Restricted Shares”), the fair value of the employee services received is determined by reference to the fair value of the Restricted Shares granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (other

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reserve). At the end of each reporting period, the Group revises its estimates of the number of Restricted Shares that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the estimates, if any, is recognized in the profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserve.

Taxation

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

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

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

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

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

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

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

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

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For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the lease liabilities and the related assets separately. The Group recognizes a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized and a deferred tax liability for all taxable temporary differences.

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

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment other than assets under construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalized in accordance with the Group’s accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognized in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of IAS 2. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use

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assets” in the consolidated statements of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the cost of assets other than property, plant and equipment in the course of construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Internally-generated intangible asset — research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortization and any accumulated impairment losses on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill

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

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

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

Before the Group recognizes an impairment loss for assets capitalized as contract costs under IFRS 15, the Group assesses and recognizes any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalized as contract costs is recognized to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly

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to providing those goods or services that have not been recognized as expenses. The assets capitalized as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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

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

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

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include cash, which comprises of cash on hand and demand deposits.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average method. Net realizable value represents the contracted selling price less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

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Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortized cost or fair value through other comprehensive income (“FVTOCI”) as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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(i) Amortized cost and interest income

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

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets as FVTPL are measured at fair value at the end of each reporting, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any interest earned on the financial asset and is included in the “other gains and losses” line item.

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables, receivables for purchase of raw materials on behalf of customers, other receivables, other long-term deposits and bank balances) and other item (including contract assets) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognizes lifetime ECL for trade receivable and contract assets.

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

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(i) Significant increase in credit risk

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

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

Lifetime ECL for certain trade receivables/contract assets are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

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For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

Derecognition/modification of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

A modification of a financial asset occurs if the contractual cash flows are renegotiated or otherwise modified.

When the contractual terms of a financial asset are modified, the Group assesses whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

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For non-substantial modifications of financial assets that do not result in derecognition, the carrying amount of the relevant financial assets will be calculated at the present value of the modified contractual cash flows discounted at the financial assets' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial assets and are amortized over the remaining term. Any adjustment to the carrying amount of the financial asset is recognized in profit or loss at the date of modification.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortized cost

Financial liabilities including trade and other payables and loans from related parties are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

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

Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, the Group assumes that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

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Cash flow hedges

The effective portion of changes in the fair value of derivatives instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the “other gains and losses” line item.

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future that amount is immediately reclassified to profit or loss.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transactions is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumption are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognized in the Historical Financial Information.

Performance obligation determination

For contracts that contain more than one performance obligations (i.e. FFS contracts usually have multiple deliverable units, which are generally in the form of technical laboratory reports, samples and/or goods), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

A performance obligation represents a good and service that is distinct or a series of distinct goods or services that are substantially the same. In certain sales contracts, the Group is required to fulfil multiple promised goods and/or services. In determining performance obligations, the management of the Group used judgements and interpretation of the contracts in identification of contractual components and related performance obligations, based on which the management of the Group concluded those goods and/or services as single or combined performance obligations.

Key sources of estimation uncertainty

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

Provision of ECL for trade receivables and contract assets

Trade receivables with significant balances and credit-impaired are assessed to ECL individually. In estimating ECL on trade receivables and contract assets, the Group uses the provision rates which are based on internal credit ratings as groupings of various debtors taking into consideration the Group’s historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group’s trade receivables and contract assets are disclosed in Note 33(c).

As at December 31, 2020, 2021 and 2022, and June 30, 2023, the carrying amounts of trade receivables are RMB23,890,000, RMB89,193,000 and RMB453,271,000, and RMB672,688,000 respectively.

As at December 31, 2020, 2021 and 2022, and June 30, 2023, the carrying amounts of contract assets are RMB1,028,000, RMB10,717,000 and RMB17,309,000, and RMB24,665,000 respectively.

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Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (or a group of cash-generating units) and an appropriate discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss may arise.

As at December 31, 2021, 2022 and June 30, 2023, the carrying amount of goodwill is RMB215,193,000. Details of the recoverable amount calculation are disclosed in Note 18.

Estimated impairment of property, plant and equipment, right-of-use assets and intangible assets

Property, plant and equipment, right-of-use assets and intangible assets are stated at costs less accumulated depreciation/amortization and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash-generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect recoverable amounts.

During the Track Record Period, the management of the Group assessed whether an event, has occurred or any indicators that may affect the asset value. The management concluded that there were no indications of impairment or the recoverable amounts of the related assets that may have impairment indications were higher than the carrying amounts, thus no impairment loss has been recognized on property, plant and equipment, right-of-use assets and intangible assets.

Impairment of contract costs

The Group assesses periodically if contract costs may not be recoverable based on an assessment of the remaining amount of consideration the Group expects to receive in exchange of goods or services. Impairment are applied to contract costs where events or changes in circumstances indicate that the remaining amount of consideration to receive less the costs directly related to providing goods or services that have not been recognized as expense is lower than the carrying amount of contract costs. The remaining amount of consideration to receive has been determined based on the remaining amount of consideration expected to be recognized upon the completion of the contract. Where the expectation is different from the original estimate, such difference will impact the carrying value of contract costs in the year in which such estimate changes.

As at December 31, 2020, 2021 and 2022, and June 30, 2023, the carrying amounts of contract costs are RMB13,875,000, RMB36,690,000 and RMB80,713,000, and RMB63,134,000.

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6. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

The Group derives its revenue from the transfer of services at a point in time and over time in the following major service lines:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Type of services					
Services					
– Research services on FFS basis	96,353	311,131	974,421	324,513	980,144
– Research services on full-time- equivalent (“FTE”) basis	—	—	16,002	4,923	13,324
Total	96,353	311,131	990,423	329,436	993,468
Timing of revenue recognition					
A point in time					
– Research services on FFS basis	96,353	310,266	973,929	318,948	971,062
Over time					
– Research services on FFS basis	—	865	492	5,565	9,082
– Research services on FTE basis	—	—	16,002	4,923	13,324
Total	96,353	311,131	990,423	329,436	993,468

(ii) Performance obligations for contracts with customers

Research services on FFS basis

The Group primarily earns revenue by providing research services to its customers through FFS contracts. Contract duration ranges from few months to years.

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Majority of FFS contracts entered by the Group contain multiple deliverable units, which are generally in the form of technical laboratory reports and/or samples, each with individual selling price specified in the contract. Usually, the Group identifies each deliverable unit as a separate performance obligation, and recognizes FFS revenue of contractual elements at the point upon acceptance of the deliverable units or after the end of a confirmation period. The contracts include payment schedules which require stage payments over the research period once certain specified milestones are reached. The Group’s performance does not create an asset with alternative future use since the Group cannot redirect the asset for use on another customer, and at the same time the Group has a present right to payment from the customers for services performed only upon acceptance of the deliverable units, therefore, the directors of the Company have concluded that the performance obligation of such FFS contract is satisfied at a point in time and recognized the FFS revenue at a point in time.

In addition, usually there is a performance obligation embedded in the abovementioned FFS contracts namely project management service for which the directors of the Company have assessed that the customers simultaneously receive and consume benefit provided by the Group’s performances. As such, the directors of the Company concluded that the performance obligation of the project management service is satisfied over time and the associated revenue is recognized over the service period using input method.

Research services on FTE basis

For the research services provided on a FTE basis, the Group provides its customer with a project team of employees dedicated to the customer’s studies for a specific period of time and charges the customer at a fixed hourly/daily rate per employee. For the services under FTE model, the directors of the Company have assessed that the customers simultaneously receive and consume benefit provided by the Group’s performances. Therefore, the performance obligation of FTE services is satisfied over time and FTE revenue is recognized over the service period. The customers shall pay the Group a prorated amount for the service based on the fixed rate per employee.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) are nil, RMB475 million and RMB1,495 million, and RMB2,958 million as at December 31, 2020, 2021 and 2022, and June 30, 2023, respectively. The management of the Group expects the majority of the transaction price allocated to the unsatisfied contracts as of each reporting date during the reporting period will be recognized as revenue within five years from the reporting date.

For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Company) reviews the overall results and financial position of the Group as a whole prepared based on the same accounting policies as set out in Note 4. Accordingly, the Group has only one single operating and reportable segment and no further analysis of this single segment is presented.

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Geographical information

An analysis of the Group’s revenue from customers, analyzed by their respective country/region of operation, is detailed below:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Revenue					
– North America	—	5,399	259,521	59,449	290,158
– the PRC	96,353	291,104	566,475	237,656	471,096
– Europe	—	5,265	128,647	22,491	213,363
– Rest of the world	—	9,363	35,780	9,840	18,851
	<u>96,353</u>	<u>311,131</u>	<u>990,423</u>	<u>329,436</u>	<u>993,468</u>

As at December 31, 2020, 2021 and 2022, the Group’s non-current assets are all located in the PRC. As at June 30, 2023, except for non-current assets of the Group amounted to RMB1,421,000 are located in Singapore, the Group’s remaining non-current assets are located in the PRC.

Information about major customers

Revenue from customers of the corresponding periods contributing over 10% of the total sales of the Group are as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Customer A (note)	81,041	252,420	375,466	237,156	140,484
Customer B (note)	N/A	N/A	N/A	N/A	131,199
Customer C (note)	N/A	N/A	N/A	N/A	129,844

*Note:*N/A: not disclosed as amount less than 10% of total revenue.

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7. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Rental and other related income (<i>note i</i>)	1,525	7,596	3,831	1,614	1,122
Sales of materials to related parties	246	445	1,930	1,313	3,730
Interest income from banks . .	31	28	4,612	562	3,424
Research and other grants related to income (<i>note ii</i>) .	39,644	897	15,779	15,323	31,303
	<u>41,446</u>	<u>8,966</u>	<u>26,152</u>	<u>18,812</u>	<u>39,579</u>

Notes:

- (i) In respect of the rental income, there are direct operating expenses incurred for investment property that generated rental income amounting to RMB406,000, RMB561,000 and RMB2,346,000 for the years ended December 31, 2020, 2021 and 2022, respectively, and RMB1,082,000 and RMB946,000 for the period ended June 30, 2022 (unaudited) and June 30, 2023, respectively.
- (ii) The research and other grants received by the Group during the Track Record Period were mainly related to the Group’s contribution to the local high-tech industry and economy. These grants are unconditional and accounted for as immediate financial support with neither future related costs expected to be incurred nor related to any assets of the Group.

8. OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Net foreign exchange (loss)gain	(2,711)	(986)	46,284	25,455	(1,407)
Fair value gain on wealth management products	—	—	—	—	5,543
Others	—	131	388	224	325
	<u>(2,711)</u>	<u>(855)</u>	<u>46,672</u>	<u>25,679</u>	<u>4,461</u>

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9. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Interest expense on loans from related parties	—	424	2,591	1,381	420
Interest expense on lease liabilities	—	69	325	192	149
	—	493	2,916	1,573	569

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Depreciation for property, plant and equipment	16,064	21,390	22,808	9,748	22,546
Depreciation for investment property	—	168	403	202	202
Depreciation of right-of-use assets	—	1,112	6,459	3,229	2,348
Amortization of intangible assets	565	2,218	10,342	3,417	3,601
	16,629	24,888	40,012	16,596	28,697
Staff cost (including directors’ emoluments):					
– Salaries and other benefits	41,641	78,057	144,213	49,330	112,001
– Retirement benefits scheme contributions (note)	285	6,850	14,526	5,378	12,286
– Share-based payment expenses	6,476	22,157	38,626	10,595	34,847
	48,402	107,064	197,365	65,303	159,134
Less: Capitalized in contract costs and property, plant and equipment.	(7,556)	(6,833)	(44,532)	(13,136)	(34,140)
	57,475	125,119	192,845	68,763	153,691

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	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Impairment losses recognized (reversed), under expected credit loss model, net of reversal					
– Trade receivables	281	10,562	41,047	(2,976)	(23,792)
– Contract assets	—	2	149	—	1,585
– Receivables for purchase of raw materials on behalf of customers	8	(6)	2,173	—	(2,175)
	<u>289</u>	<u>10,558</u>	<u>43,369</u>	<u>(2,976)</u>	<u>(24,382)</u>
[REDACTED] expenses	—	—	—	—	7,374
Auditors’ remuneration	123	750	579	281	286
Write-down of inventories (included in cost of services)	—	363	448	385	380
Reversals of write-down of inventories (included in cost of services)	—	—	(328)	(327)	(107)
Write-down of contract costs (included in cost of services)	1	3,811	5,815	7,739	2,720
Reversals of write-down of contract costs (included in cost of services)	—	(1)	(3,810)	(3,810)	(1,955)
(Loss) gain on disposal of property, plant and equipment	—	(108)	(65)	(29)	19
Cost of inventories recognized as an expense	<u>—</u>	<u>41,964</u>	<u>96,460</u>	<u>58,295</u>	<u>80,833</u>

Note: During the year ended December 31, 2020, pursuant to the notice released by the relevant PRC authority, certain domestic subsidiaries of the Group have been fully or partially waived to undertake a number of retirement benefit scheme contributions and other social insurance.

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11. INCOME TAX EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Current tax					
– the PRC Enterprise					
Income Tax (“EIT”)	6,316	14,918	47,230	20,322	33,462
– Hong Kong profits tax . . .	—	—	2,231	912	3,573
Deferred tax (<i>Note 19</i>)	(249)	(1,608)	(9,342)	(72)	2,780
Over provision in prior					
years	—	(1,387)	(49)	(39)	(5,461)
Total income tax expenses . . .	<u>6,067</u>	<u>11,923</u>	<u>40,070</u>	<u>21,123</u>	<u>34,354</u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiaries is 25%.

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit.

For certain Group’s subsidiaries operating in the PRC are eligible for certain concessions, which were accredited as “High and New Technology Enterprise” or “Micro and Small Enterprise” were therefore entitled to a preferential EIT rate or certain concessions.

The directors of the Company are of the view that it is very probable that the subsidiaries which are eligible for “High and New Technology Enterprise” tax preference are able to extend their accreditation upon expiry.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Profit before tax	32,366	66,853	195,801	119,390	211,568
Tax charge at the EIT rate of					
25%	8,092	16,713	48,950	29,848	52,892
Tax effect of income that is					
exempt from taxation	—	—	(5,536)	(11)	(1,093)
Tax effect of expenses not					
deductible for tax purpose					
(<i>note</i>)	2,334	6,464	12,612	4,878	9,091
Over provision in respect of					
prior years	—	(1,387)	(49)	(39)	(5,461)
Effect of additional					
deduction on research and					
development expense	(381)	(1,605)	(2,438)	(1,048)	(5,855)

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	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
Effect of unused tax losses not recognized as deferred tax assets	—	229	—	—	49
Utilization of tax losses previously not recognized as deferred tax assets.	(1,802)	—	—	—	—
Tax at concessionary rates.	(2,176)	(8,790)	(7,646)	(6,916)	(16,360)
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	—	138	—	—	—
Effect of different tax rate of operating entities in other jurisdiction	—	161	(5,823)	(5,589)	1,091
Income tax expenses.	<u>6,067</u>	<u>11,923</u>	<u>40,070</u>	<u>21,123</u>	<u>34,354</u>

Note: Tax effect of expenses not deductible for tax purpose was mainly resulted from share-based payment expenses.

12. DIRECTORS’, CHIEF EXECUTIVE’S AND EMPLOYEES’ EMOLUMENTS

Details of the emoluments paid or payable to the individuals who were appointed as the directors and chief executive of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company), during the Track Record Period, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, are as follows:

For the year ended December 31, 2020

	Date of appointment	Director’s fee	Salaries and other benefits	Performance-based bonus	Retirement benefit scheme contributions	Share-based compensation	Total
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<i>Executive director and chief executive officer:</i>							
Mr. Jincal Li	December 14, 2020 (note i)	—	1,341	504	—	939	2,784
<i>Executive director and chief financial officer:</i>							
Mr. Xiaojie Xi	June 30, 2023	—	—	—	—	—	—
<i>Executive director and chief operating officer:</i>							
Mr. Jerry Jingwei Zhang	June 30, 2023	—	1,200	480	—	739	2,419

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	Date of appointment	Director’s fee	Salaries and other benefits	Performance-based bonus	Retirement benefit scheme contributions	Share-based compensation	Total
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<i>Non-executive director:</i>							
Mr. Zhisheng Chan	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Weichang Zhou	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Ming Shi	June 30, 2023	—	—	—	—	—	—
<i>Director:</i>							
Mr. Ge Li	December 14, 2020 (note iii)	—	—	—	—	—	—
Mr. Minzhang Chen	December 14, 2020 (note iv)	—	—	—	—	—	—
Mr. Steve Qing Yang	May 31, 2021	—	—	—	—	—	—
		—	2,541	984	—	1,678	5,203

For the year ended December 31, 2021

	Date of appointment	Director’s fee	Salaries and other benefits	Performance-based bonus	Retirement benefit scheme contributions	Share-based compensation	Total
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<i>Executive director and chief executive officer:</i>							
Mr. Jincal Li	December 14, 2020 (note i)	—	1,389	552	—	3,713	5,654
<i>Executive director and chief financial officer:</i>							
Mr. Xiaojie Xi	June 30, 2023	—	—	—	—	—	—
<i>Executive director and chief operating officer:</i>							
Mr. Jerry Jingwei Zhang	June 30, 2023	—	1,211	480	—	1,537	3,228
<i>Non-executive director:</i>							
Mr. Zhisheng Chan	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Weichang Zhou	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Ming Shi	June 30, 2023	—	—	—	—	—	—

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	Date of appointment	Director’s fee	Salaries and other benefits	Performance-based bonus	Retirement benefit scheme contributions	Share-based compensation	Total
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<i>Director:</i>							
Mr. Ge Li	December 14, 2020 (note iii)	—	—	—	—	—	—
Mr. Minzhang Chen	December 14, 2020 (note iv)	—	—	—	—	—	—
Mr. Steve Qing Yang	May 31, 2021	—	—	—	—	—	—
		—	2,600	1,032	—	5,250	8,882

For the year ended December 31, 2022

	Date of appointment	Director’s fee	Salaries and other benefits	Performance-based bonus	Retirement benefit scheme contributions	Share-based compensation	Total
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<i>Executive director and chief executive officer:</i>							
Mr. Jincai Li	December 14, 2020 (note i)	—	2,013	805	—	11,938	14,756
<i>Executive director and chief financial officer:</i>							
Mr. Xiaojie Xi	June 30, 2023	—	—	—	—	—	—
<i>Executive director and chief operating officer:</i>							
Mr. Jerry Jingwei Zhang	June 30, 2023	—	1,230	492	—	3,350	5,072
<i>Non-executive director:</i>							
Mr. Zhisheng Chan	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Weichang Zhou	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Ming Shi	June 30, 2023	—	—	—	—	—	—
<i>Director:</i>							
Mr. Minzhang Chen	December 14, 2020 (note iv)	—	—	—	—	—	—
Mr. Steve Qing Yang	May 31, 2021	—	—	—	—	—	—
		—	3,243	1,297	—	15,288	19,828

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For the year ended June 30, 2022 (unaudited)

	Date of appointment	Director’s fee	Salaries and other benefits	Performance-based bonus	Retirement benefit scheme contributions	Share-based compensation	Total
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<i>Executive director and chief executive officer:</i>							
Mr. Jincal Li	December 14, 2020 (note i)	—	978	391	—	3,328	4,697
<i>Executive director and chief financial officer:</i>							
Mr. Xiaojie Xi	June 30, 2023	—	—	—	—	—	—
<i>Executive director and chief operating officer:</i>							
Mr. Jerry Jingwei Zhang	June 30, 2023	—	600	240	—	1,656	2,496
<i>Non-executive director:</i>							
Mr. Zhisheng Chan	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Weichang Zhou	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Ming Shi	June 30, 2023	—	—	—	—	—	—
<i>Director:</i>							
Mr. Minzhang Chen	December 14, 2020 (note iv)	—	—	—	—	—	—
Mr. Steve Qing Yang	May 31, 2021	—	—	—	—	—	—
		—	1,578	631	—	4,984	7,193

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For the year ended June 30, 2023

	Date of appointment	Director’s fee	Salaries and other benefits	Performance-based bonus	Retirement benefit scheme contributions	Share-based compensation	Total
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<i>Executive director and chief executive officer:</i>							
Mr. Jincai Li	December 14, 2020 (note i)	—	1,035	414	—	5,023	6,472
<i>Executive director and chief financial officer:</i>							
Mr. Xiaojie Xi	June 30, 2023	—	415	166	3	—	584
<i>Executive director and chief operating officer:</i>							
Mr. Jerry Jingwei Zhang	June 30, 2023	—	699	276	—	1,620	2,595
<i>Non-executive director:</i>							
Mr. Zhisheng Chan	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Weichang Zhou	December 14, 2020 (note ii)	—	—	—	—	—	—
Mr. Ming Shi.	June 30, 2023	—	—	—	—	—	—
<i>Director:</i>							
Mr. Minzhang Chen	December 14, 2020 (note iv)	—	—	—	—	—	—
Mr. Steve Qing Yang	May 31, 2021	—	—	—	—	—	—
		<u>—</u>	<u>2,149</u>	<u>856</u>	<u>3</u>	<u>6,643</u>	<u>9,651</u>

Notes:

- (i) Mr. Jincai Li was appointed as director on December 14, 2020, then re-designated to executive director with effect from June 30, 2023.
- (ii) Mr. Zhisheng Chen and Mr. Weichang Zhou were appointed as director on December 14, 2020, then re-designated to non-executive director with effect from June 30, 2023.
- (iii) Mr. Ge Li was appointed as director on December 14, 2020 and resigned on May 31, 2021.
- (iv) Mr. Minzhang Chen was appointed as director on December 14, 2020 and resigned on June 30, 2023.

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Five highest paid individuals’ emoluments

The five highest paid employees of the Group included two directors of the Company whose emoluments are set out above throughout the Track Record Period. The emoluments of the remaining three individuals throughout the Track Record Period, were as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
Salaries and other benefits	2,216	2,373	2,517	1,242	2,295
Performance-based bonus	719	792	826	410	780
Retirement benefit scheme contributions	45	85	95	47	—
Share-based compensation	2,005	4,265	6,327	2,395	1,565
	<u>4,985</u>	<u>7,515</u>	<u>9,765</u>	<u>4,094</u>	<u>4,640</u>

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company have waived any emoluments during the Track Record Period.

The emoluments of the five highest paid individuals were within the following bands:

	Number of individuals				
	2020	2021	2022	2022	2023
				(unaudited)	
HK\$1,000,001 to HK\$1,500,000 . . .	1	—	—	1	1
HK\$1,500,001 to HK\$2,000,000 . . .	1	—	—	1	1
HK\$2,000,001 to HK\$2,500,000 . . .	2	1	—	1	1
HK\$2,500,001 to HK\$3,000,000 . . .	—	1	1	—	1
HK\$3,000,001 to HK\$3,500,000 . . .	1	2	—	1	—
HK\$4,000,001 to HK\$4,500,000 . . .	—	—	2	—	—
HK\$5,500,001 to HK\$6,000,000 . . .	—	—	1	1	—
HK\$6,500,001 to HK\$7,000,000 . . .	—	1	—	—	—
HK\$7,000,001 to HK\$7,500,001 . . .	—	—	—	—	1
HK\$17,000,001 to HK\$17,500,000 . .	—	—	1	—	—
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

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13. EARNINGS PER SHARE

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

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Earnings:					
Earnings for the purpose of calculating basic and diluted earnings per share	26,299	54,930	155,731	98,267	177,214
				(unaudited)	
	Number of shares				
<u>Number of shares:</u>					
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	600,000,000	600,000,000	881,643,836	680,000,000	1,000,000,000
Effect of dilutive potential ordinary shares					
Share options	—	—	—	—	23,010,525
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>600,000,000</u>	<u>600,000,000</u>	<u>881,643,836</u>	<u>680,000,000</u>	<u>1,023,010,525</u>

The weighted average number of shares for the purpose of basic earnings per share for Track Record Period is calculated based on the assumptions as disclosed in Note 32 having been adjusted retrospectively after taking into account the impact of 400,000,000 shares paid up in April 2022.

No computation of diluted earnings per share for the years December 31, 2020 and 2021 as there were no potential dilutive ordinary shares in issue. The computation of diluted earnings per share for the year ended December 31, 2022 and for the six months ended June 30, 2022 (unaudited) does not assume the exercise of share option scheme granted by the Company as set out in Note 38 since their exercise prices plus fair value of services yet to be rendered are higher than the average share prices of the Company.

14. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the Track Record Period nor has any dividend been proposed since the end of the reporting period.

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15. PROPERTY, PLANT AND EQUIPMENT

	Machinery	Furniture, fixtures and equipment	Land and buildings	Leasehold improvements	Construction in progress ("CIP")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
As at January 1, 2020	60,838	3,505	—	84,883	132,305	281,531
Additions	2,083	115	—	—	51,319	53,517
Transfer in from CIP	20,025	2,831	114,304	12,596	(149,756)	—
Disposals	(1,074)	—	—	(156)	—	(1,230)
As at December 31, 2020	81,872	6,451	114,304	97,323	33,868	333,818
Additions	6,883	252	—	—	98,700	105,835
Transfer in from CIP	24,434	2,089	25	37,992	(64,540)	—
Transfer out to investment property	—	—	(13,383)	—	—	(13,383)
Disposals	(8,395)	(80)	—	(31,767)	(135)	(40,377)
As at December 31, 2021	104,794	8,712	100,946	103,548	67,893	385,893
Additions	16,752	5,838	—	—	464,684	487,274
Transfer in from CIP	58,114	9,609	—	35,433	(103,156)	—
Disposals	(577)	(12)	—	—	(1,221)	(1,810)
As at December 31, 2022	179,083	24,147	100,946	138,981	428,200	871,357
Additions	2,171	498	—	—	209,493	212,162
Transfer in from CIP	46,208	5,477	103,095	64,746	(219,526)	—
Disposals	(755)	(354)	—	—	—	(1,109)
As at June 30, 2023	226,707	29,768	204,041	203,727	418,167	1,082,410
DEPRECIATION						
As at January 1, 2020	(10,542)	(425)	—	(3,679)	—	(14,646)
Provided for the year	(8,842)	(567)	(2,212)	(4,443)	—	(16,064)
Eliminated on disposals	52	—	—	45	—	97
As at December 31, 2020	(19,332)	(992)	(2,212)	(8,077)	—	(30,613)
Provided for the year	(10,324)	(1,194)	(3,319)	(6,553)	—	(21,390)
Transfer out to investment property	—	—	168	—	—	168
Eliminated on disposals	541	26	—	1,059	—	1,626
As at December 31, 2021	(29,115)	(2,160)	(5,363)	(13,571)	—	(50,209)
Provided for the year	(10,499)	(3,655)	(2,916)	(5,738)	—	(22,808)
Eliminated on disposals	228	7	—	—	—	235
As at December 31, 2022	(39,386)	(5,808)	(8,279)	(19,309)	—	(72,782)
Provided for the period	(12,025)	(2,095)	(3,078)	(5,348)	—	(22,546)
Eliminated on disposals	299	174	—	—	—	473
As at June 30, 2023	(51,112)	(7,729)	(11,357)	(24,657)	—	(94,855)
CARRYING VALUES						
At December 31, 2020	62,540	5,459	112,092	89,246	33,868	303,205
At December 31, 2021	75,679	6,552	95,583	89,977	67,893	335,684
At December 31, 2022	139,697	18,339	92,667	119,672	428,200	798,575
As at June 30, 2023	175,595	22,039	192,684	179,070	418,167	987,555

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Except for CIP, the above items of property, plant and equipment are depreciated on a straight-line basis after taking into account of the residual value as follows:

Machinery	9%-23% per annum
Furniture, fixtures and equipment	9%-23% per annum
Land and buildings	3% per annum
Leasehold improvements	20% per annum

16. INVESTMENT PROPERTY

The Group leases out an assembly center under operating lease with rentals payable annually. The lease runs for an initial period of 2 to 4 years with unilateral rights to extend the lease beyond initial period held by lessee only. The lease contract contains market review clauses in the event the lessee exercises the option to extend.

The lease contract does not contain residual value guarantee and/or lessee’s option to purchase the property at the end of lease term.

	<u>Leased property</u>
	RMB’000
COST	
As at December 31, 2020	—
Transfer in from property, plant and equipment	13,383
	<u>13,383</u>
As at December 31, 2021, 2022 and June 30, 2023.	<u>13,383</u>
DEPRECIATION	
As at December 31, 2020	—
Charge for the year.	(168)
	<u>(168)</u>
As at December 31, 2021	(168)
Charge for the year.	(403)
	<u>(403)</u>
As at December 31, 2022	(571)
Charge for the period	(202)
	<u>(202)</u>
As at June 30, 2023	<u>(773)</u>
CARRYING VALUES	
As at December 31, 2020	—
	<u>—</u>
As at December 31, 2021	13,215
	<u>13,215</u>
As at December 31, 2022	12,812
	<u>12,812</u>
As at June 30, 2023	<u>12,610</u>

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The fair value of the Group’s investment property at December 31, 2021 and 2022, and June 30, 2023 were RMB13,619,000 and RMB13,431,000, and RMB13,288,000, respectively. The fair value has been arrived at based on a valuation carried out by PricewaterhouseCoopers Consultants (Shenzhen) Limited, Shanghai Branch with registered address of 42/F New Bund Center, 588 Dongyu Road, Pudong New Area, Shanghai 200126, PRC, independent valuer not connected with the Group.

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group’s investment property. There has been no change from the valuation technique used throughout the Track Record Period.

In estimating the fair value of the property, the highest and best use of the property is its current use.

Details of the Group’s investment property and information about the fair value hierarchy as at the end of the reporting period are as follows:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Carrying amount				
Assembly center	—	13,215	12,812	12,610
	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Fair value at Level 2 hierarchy				
Assembly center	—	13,619	13,431	13,288

The above investment property is depreciated on a straight-line basis at the following rate per annum:

Assembly center 31 years

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17. RIGHT-OF-USE ASSETS

The Group as lessee

	<u>Leased properties</u>
	<u>RMB’000</u>
As at December 31, 2020	
Carrying amount.	—
As at December 31, 2021	
Carrying amount.	2,223
As at December 31, 2022	
Carrying amount.	5,280
As at June 30, 2023	
Carrying amount.	4,529
For the year ended December 31, 2020	
Depreciation charge	—
For the year ended December 31, 2021	
Depreciation charge	1,112
For the year ended December 31, 2022	
Depreciation charge	6,459
For the period ended June 30, 2023	
Depreciation charge	2,348

	<u>Year ended December 31,</u>			<u>Six</u>
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>months ended</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>June 30,</u>
				<u>2023</u>
				<u>RMB’000</u>
Expenses relating to short-term leases . .	862	1,659	3,122	4,955
Total cash outflow for leases.	862	1,659	9,172	7,436
Additions to right-of-use assets	—	2,180	9,516	1,597

Throughout the Track Record Period, the Group leases various offices and laboratories for its operations. Lease contracts are entered into for a fixed term of 1.5 to 6 years, but may have extension options as described in Note 5. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

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The Group regularly entered into short-term leases for equipment, offices and laboratories. As at December 31, 2020, 2021 and 2022, and June 30, 2023, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expenses are disclosed above.

Restrictions or covenants on leases

As at December 31, 2020, 2021 and 2022, and June 30, 2023, lease liabilities of nil, RMB2,249,000, RMB6,040,000 and RMB5,305,000, are recognized with related right-of-use assets of nil, RMB2,223,000 and RMB5,280,000, RMB4,529,000 respectively. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. The Group is restricted from assigning and subleasing the leased assets outside the Group.

18. GOODWILL

	Acquisition of Payload and Linker Business
	RMB’000
COST AND CARRYING VALUES	
As at December 31, 2021, 2022, and June 30, 2023	215,193

The goodwill amounted to RMB215,193,000 was arising from the Group’s acquisition of Payload and Linker Business during the year ended December 31, 2021.

For the purposes of impairment testing, the acquired Payload and Linker Business is allocated as an individual cash-generating unit (the “Payload and Linker Unit”). The recoverable amount of the Payload and Linker Unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period.

The following table sets out the key assumptions for the value in use calculation of the Payload and Linker Unit.

	As at December 31,	
	2021	2022
	RMB’000	RMB’000
Pre-tax discount rate (<i>note i</i>)	16%	17%
Expected annual growth rate in 5 years (<i>note ii</i>)	10.0%-30.0%	5.0%-30.0%

- Notes:*
- i. Pre-tax discount rate applied reflects the current market assessments of the time value of money and the risks specific to the Payload and Linker Unit.
 - ii. The estimation of expected annual growth rate is based on the revenue backlog and management’s expectation for the market development.

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The cash flows beyond the 5-year period are extrapolated using a growth rate based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

The management of the Group performed sensitivity test on the key assumptions by increasing 1% of pre-tax discount rate or decreasing of 5% expected annual growth rate, with all other variables held constant. The impact on the amount by which the goodwill’s recoverable amount above its carrying amount (headroom) are as below:

	As at December 31,	
	2021	2022
	RMB’000	RMB’000
Headroom	N/A <i>(note)</i>	83,068
Impact by increasing pre-tax discount rate of 1%	(26,373)	(32,019)
Impact by decreasing annual growth rate of 5%	(45,513)	(47,174)

Note: As the acquisition date of Payload and Linker Business was near the end of financial year 2021, the management of the Group considers recoverable amount approximates the carrying amount as at December 31, 2021.

Impairment assessment as at June 30, 2023

In accordance with the Group’s accounting policies, goodwill is tested for impairment on an annual basis at each year end. As at June 30, 2023, the management was not aware of any significant adverse changes on the Payload and Linker Unit, which indicates that the carrying amount of the Payload and Linker Unit exceeds the recoverable amount. Consequently, no interim impairment assessment as at June 30, 2023 was performed.

Based on the above assessment, management of the Group determines that there is no impairment on the Payload and Linker Unit during and at the end of the reporting period. Management of the Group believes that any reasonably possible change in any of these assumptions would not result in impairment.

19. DEFERRED TAXATION

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

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Deferred tax assets	387	1,995	11,540	8,557
Deferred tax liabilities	(556)	(382)	—	—
	(169)	1,613	11,540	8,557

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The following are the major deferred tax assets and liabilities recognized and movements thereon before offsetting during the reporting periods:

	Allowance on inventories and credit losses	Lease liability under IFRS 16	Right-of-use assets under IFRS 16	Derivative financial instruments	Accrued expenses	Tax losses	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As at January 1, 2020	—	—	—	—	138	—	138
Credited to profit or loss	44	—	—	—	205	—	249
Charged to other comprehensive income (“OCI”) . . .	—	—	—	(556)	—	—	(556)
As at December 31, 2020	44	—	—	(556)	343	—	(169)
Credited (charged) to profit or loss	1,638	563	(556)	—	(37)	—	1,608
Credited to OCI	—	—	—	174	—	—	174
As at December 31, 2021	1,682	563	(556)	(382)	306	—	1,613
Credited (charged) to profit or loss	8,551	592	(441)	—	640	—	9,342
Credited to OCI	—	—	—	585	—	—	585
As at December 31, 2022	10,233	1,155	(997)	203	946	—	11,540
(Charged) credited to profit or loss	(3,936)	5	(19)	—	—	1,170	(2,780)
Charged to OCI	—	—	—	(203)	—	—	(203)
As at June 30, 2023 .	<u>6,297</u>	<u>1,160</u>	<u>(1,016)</u>	<u>—</u>	<u>946</u>	<u>1,170</u>	<u>8,557</u>

As at December 31, 2020, 2021 and 2022, and June 30, 2023, the Group had unused tax losses of nil, RMB915,000, nil, and RMB4,875,000, respectively available to offset against future profits. As at December 31, 2020, 2021 and 2022, no deferred tax asset has been recognized in respect of these unused tax losses due to the unpredictability of future profit streams. As at June 30, 2023, a deferred tax asset has been recognized, in respect of approximately RMB4,678,000 of such losses, and no deferred tax has been recognized in respect of the remaining approximately RMB197,000 due to the unpredictable of future profit streams.

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The unrecognized tax losses as at December 31, 2020, 2021 and 2022, and June 30, 2023 include nil, RMB203,000 and nil, and RMB197,000 of the losses arising from subsidiaries located in Hong Kong and Singapore which will be carried forward indefinitely until it’s fully offset. The remaining unrecognized tax losses will be carried forward and expire in years as follows:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
2024	—	—	—	—
2025	—	—	—	—
2026	—	712	—	—
2027	—	—	—	—
2028	—	—	—	—
Indefinitely	—	203	—	197
	<u>—</u>	<u>915</u>	<u>—</u>	<u>197</u>

20. INTANGIBLE ASSETS

	Technology	License	Customer relationship	Total
	RMB’000	RMB’000	RMB’000	RMB’000
COST				
As at January 1, 2020	1,838	—	—	1,838
Additions	<u>3,600</u>	<u>—</u>	<u>—</u>	<u>3,600</u>
As at December 31, 2020	5,438	—	—	5,438
Acquisition of Payload and Linker Business ..	<u>—</u>	<u>—</u>	<u>58,400</u>	<u>58,400</u>
As at December 31, 2021 and 2022	5,438	—	58,400	63,838
Additions	<u>—</u>	<u>10,000</u>	<u>—</u>	<u>10,000</u>
As at June 30, 2023	<u>5,438</u>	<u>10,000</u>	<u>58,400</u>	<u>73,838</u>
AMORTIZATION				
As at January 1, 2020	(65)	—	—	(65)
Charge for the year	<u>(565)</u>	<u>—</u>	<u>—</u>	<u>(565)</u>
As at December 31, 2020	(630)	—	—	(630)
Charge for the year	<u>(668)</u>	<u>—</u>	<u>(1,550)</u>	<u>(2,218)</u>
As at December 31, 2021	(1,298)	—	(1,550)	(2,848)
Charge for the year	<u>(4,140)</u>	<u>—</u>	<u>(6,202)</u>	<u>(10,342)</u>

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	<u>Technology</u>	<u>License</u>	<u>Customer relationship</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
		(note i)	(note ii)	
As at December 31, 2022	(5,438)	—	(7,752)	(13,190)
Charge for the period	—	(500)	(3,101)	(3,601)
As at June 30, 2023	<u>(5,438)</u>	<u>(500)</u>	<u>(10,853)</u>	<u>(16,791)</u>
CARRYING VALUES				
As at December 31, 2020	<u>4,808</u>	—	—	<u>4,808</u>
As at December 31, 2021	<u>4,140</u>	—	56,850	<u>60,990</u>
As at December 31, 2022	<u>—</u>	—	50,648	<u>50,648</u>
As at June 30, 2023	<u>—</u>	9,500	47,547	<u>57,047</u>

Notes:

- (i) License fee paid is amortized on a straight-line basis over its estimated useful life of 5 years which represents the average duration of contracts benefit from the license estimated by the management of the Group.
- (ii) Customer relationship was recognized as a result of the acquisition of Payload and Linker Business in 2021. The amount represented the intellectual property and existing customer relationships which have finite useful life and are amortized on a straight-line basis over their estimated useful lives of 9 years which was estimated by the management of the Group as at the acquisition date based on the expected duration of business relationships with customers of Payload and Linker Business with reference to the historical attrition pattern.

21. FINANCIAL ASSETS AT FVTPL

	<u>As at December 31,</u>			<u>As at June 30,</u>
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Current asset				
Wealth management products (<i>note</i>).	<u>—</u>	<u>—</u>	<u>400,000</u>	<u>—</u>

Note: During the year ended December 31, 2022 and six months ended June 30, 2023, the Group entered into contracts of wealth management products with a bank with maturity term within 12 months. The returns of the wealth management products are determined by reference to the performance of the underlying instruments in the currency market, therefore they are recognized as financial assets at FVTPL. The weighted average return rate is 3.7% and 9.4% for the year ended December 31, 2022 and six months ended June 30, 2023, respectively.

The Group has redeemed all the wealth management products as at June 30, 2023.

Details of the fair value measurement of the financial assets at FVTPL are set out in Note 33(d).

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22. INVENTORIES

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Raw material and consumables	7,678	23,786	62,934	47,403

Raw materials and consumables are net of a write-down of approximately nil, RMB363,000, RMB483,000 and RMB756,000 as at December 31, 2020, 2021 and 2022, and June 30, 2023.

23. CONTRACT COSTS

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Costs to fulfill contracts	13,875	36,690	80,713	63,134

Contract costs are net of a write-down of approximately RMB1,000, RMB3,810,000 and RMB2,005,000, and RMB765,000 for the years ended December 31, 2020, 2021 and 2022, and six months ended June 30, 2023.

24. TRADE AND OTHER RECEIVABLES

The Group

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables from contracts with customers				
– related parties	18,347	63,209	134,666	88,748
Less: allowance for credit losses	(261)	(6,405)	(13,520)	(3,349)
– third parties	5,824	36,827	370,495	612,038
Less: allowance for credit losses	(20)	(4,438)	(38,370)	(24,749)
	<u>23,890</u>	<u>89,193</u>	<u>453,271</u>	<u>672,688</u>
Receivables for purchase of raw materials on behalf of customers	363	1,096	5,246	—
Less: allowance for credit losses	(8)	(2)	(2,175)	—
	<u>355</u>	<u>1,094</u>	<u>3,071</u>	<u>—</u>

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	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Advances to suppliers				
– third parties	1,460	413	937	815
Other receivables				
– related parties	38	43,210	2,312	4,753
– third parties	2,649	860	581	641
Deferred issue cost	—	—	—	1,054
Prepayments	21	107	214	851
Value added tax recoverable	15,647	15,359	45,218	76,443
Total trade and other receivables	<u>44,060</u>	<u>150,236</u>	<u>505,604</u>	<u>757,245</u>

Details of the trade and other receivables due from related parties are set out in Note 37(b).

The Group allows a credit period ranging from 10 to 90 days to its customers. The following is an aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice dates:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Not past due	1,221	81,187	273,897	401,805
Overdue:				
– Within 90 days	18,329	5,422	141,332	165,468
– 91 days to 1 year	4,340	2,584	36,301	98,196
– Over 1 year	—	—	1,741	7,219
	<u>23,890</u>	<u>89,193</u>	<u>453,271</u>	<u>672,688</u>

As at December 31, 2020, 2021 and 2022, and June 30, 2023, included in the Group’s trade receivables balance are debtors with aggregate carrying amount of RMB22,669,000, RMB8,006,000 and RMB179,374,000, and RMB270,883,000, respectively, which are past due as at the reporting date. Out of the past due balances, RMB4,340,000, RMB2,584,000 and RMB38,042,000, and RMB105,415,000 has been past due 90 days or more and is not considered as in default as the management of the Group believed that the amounts will be settled by the customers based on the customers’ committed promise and historical experience. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables, other receivables and receivables for purchase of raw materials on behalf of customers are set out in Note 33(c).

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Trade and other receivables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
US\$	18,384	87,904	364,454	424,574
Euro (“EUR”)	—	—	17,861	2,194
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
Deferred issue cost	—	—	—	1,054
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

25. CONTRACT ASSETS

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Contract assets				
– related parties	—	7,684	7,685	7,685
Less: allowance for credit losses	—	(2)	(44)	(73)
– third parties	1,028	3,035	9,775	18,716
Less: allowance for credit losses	—	—	(107)	(1,663)
	<u>1,028</u>	<u>10,717</u>	<u>17,309</u>	<u>24,665</u>

The contract assets primarily relate to the Group’s right to consideration for work completed and not billed because the rights are conditioned upon the Group’s future performance in achieving specified milestones as stipulated in the contract. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms which impact on the amount of contract assets recognized are as follows:

— Revenue on FFS basis

The Group’s FFS contracts include payment schedules which require stage payments over the research or manufacturing period once certain specified milestones are reached or control of goods are transferred to customers. The Group requires certain customers to pay 20%-50% of total contract value as project start-up cost as part of its credit risk management policies.

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The Group classifies these contract assets as current because the Group expects to realize these contracts assets in their normal operating cycle.

Details of the impairment assessment of contract assets are set out in Note 33(c).

26. BANK BALANCES AND CASH

Bank balances and cash of the Group comprised of cash and short term bank deposits with an original maturity of three months or less. The short term bank deposits are carried interests at market rates which ranged from 0% to 2.38%, 0% to 2.1% and 0% to 2.03%, and 0% to 4.2% per annum for the years ended December 31, 2020, 2021 and 2022, and six months ended June 30, 2023 respectively.

The Group performed impairment assessment on bank balances and concluded that the associated credit risk is limited because the counterparties are banks with high credit rating and good reputation.

Bank balances and cash that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
US\$	22,776	6,020	184,656	139,649
EUR	—	—	5,540	8,716
HK\$	—	—	5	1,663
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

27. TRADE AND OTHER PAYABLES

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables				
– related parties	24	22,505	457,295	484,756
– third parties	4,520	10,285	23,537	21,928
	<u>4,544</u>	<u>32,790</u>	<u>480,832</u>	<u>506,684</u>
Other payables and accrual				
– related parties	1,692	41,267	109,153	131,672
– third parties	3,333	17,131	25,060	20,780
Payable for purchase of property, plant and equipment	14,273	25,543	116,870	79,934
Consideration payable to a related party for acquisition of Payload and Linker Business	—	280,000	—	—

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	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Consideration payable to a related party for acquisition of XDC Wuxi	—	404,413	—	—
Consideration payable to a related party for acquisition of BCD Business Unit	—	—	15,587	5,710
Salary and bonus payables	7,824	11,253	24,589	19,137
Accrued [REDACTED] expenses	—	—	—	6,785
Accrued issue cost	—	—	—	950
Other taxes payable	414	6,256	1,222	1,497
Trade and other payables	<u>32,080</u>	<u>818,653</u>	<u>773,313</u>	<u>773,149</u>

Details of the trade and other payables due to related parties are set out in Note 37(b).

Payment terms with suppliers are mainly on credit within 90 days from the time when the goods are received from the suppliers. The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Within 90 days	3,439	30,838	432,756	500,563
91 days to 1 year	1,105	1,930	47,853	5,732
1 to 2 years	—	22	223	360
Over 2 years	—	—	—	29
	<u>4,544</u>	<u>32,790</u>	<u>480,832</u>	<u>506,684</u>

Trade and other payables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
US\$.	20	25,688	206,525	240,153
EUR	373	75	740	131
CHF	—	—	483	737
	<u>—</u>	<u>—</u>	<u>483</u>	<u>737</u>

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	As at December 31,			As at June 30,
	2020	2021	2022	2023
Other payables and accruals				
– related parties	—	383	718	908
– third parties	—	586	1,094	1,388
Accrued [REDACTED] expenses . . .	—	—	—	6,785
Accrued issue cost	—	—	—	950
	<u>—</u>	<u>969</u>	<u>1,812</u>	<u>10,031</u>

28. LOANS FROM RELATED PARTIES

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Loan from ultimate holding company:				
Biologics Cayman	—	619	300	—
Loans from fellow subsidiaries:				
WuXi Biologics Co., Ltd (“WABIO”)	—	21,724	844	—
WuXi Biologics Biosafety Testing (Suzhou) Co., Ltd. (“WADT”)	—	—	70,000	—
Biologics Shanghai	—	—	—	—
	<u>—</u>	<u>22,343</u>	<u>71,144</u>	<u>—</u>

The loans from related parties are non-trade related, unsecured, repayable on demand and carry interest at the fixed rate of nil, ranging from 1.50% to 1.85% and 1.75% to 4.58%, and 1.86% to 4.58% per annum for the years ended December 31, 2020, 2021 and 2022, respectively. The loans had been repaid in full on April 21, 2023.

29. CONTRACT LIABILITIES

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Current				
Contract liabilities				
– third parties	<u>151</u>	<u>10,020</u>	<u>151,450</u>	<u>232,418</u>

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As at January 1, 2020, contract liabilities amounted to nil.

Revenue of nil, RMB151,000 and RMB10,020,000, and RMB131,666,000 were recognized during the years ended December 31, 2020, 2021 and 2022, and six months ended June 30, 2023, respectively that were included in the contract liabilities at the beginning of the relevant reporting periods.

Typical payment terms which impact on the amount of contract liabilities recognized are as follows:

— **Revenue on FFS basis**

The Group normally requires certain customers to pay 20% to 50% of total contract value as down payment as project start-up cost as part of its credit risk management policies. The advance payment schemes result in contract liabilities which represent the Group’s obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

30. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Assets			
	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
<i>Derivatives under hedge accounting</i>				
Cash flow hedges				
– Foreign currency forward	2,224	2,549	799	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Liabilities			
	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
<i>Derivatives under hedge accounting</i>				
Cash flow hedges				
– Foreign currency forward	—	—	2,147	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Derivatives under hedge accounting

In view of the management of the Group, the foreign currency forward contracts are highly effective hedging instruments and qualified as cash flow hedges.

For the years ended December 31, 2020, 2021 and 2022, certain subsidiaries of the Group entered into foreign currency forward contracts with a fellow subsidiary of Biologics Cayman, which is acting as corporate treasury function within the WuXi Biologics group (as defined in Note 37) for entering into hedging contracts with external banks, to minimize the exposure to fluctuations in foreign currency

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exchange rate arising from anticipated foreign currency sales transactions, in particular, the exchange rate between US\$ and RMB for foreign currency sales transactions which is designated as cash flow hedges. The major terms of these contracts on a net settlement basis as at each relevant Track Record Period presented are as follows:

As at December 31, 2020

	Average strike/ forward rate	Foreign currency	Total outstanding notional value	Fair value assets	Fair value liabilities
		US\$’000	RMB’000	RMB’000	RMB’000
Sell US\$					
Less than 3 months	6.5520-7.1787	1,047	7,407	552	—
3 to 6 months	6.5984-7.2870	1,877	13,407	1,052	—
7 to 12 months	6.6312-6.9715	3,439	23,469	620	—

As at December 31, 2021

	Average strike/ forward rate	Foreign currency	Total outstanding notional value	Fair value assets	Fair value liabilities
		US\$’000	RMB’000	RMB’000	RMB’000
Sell US\$					
Less than 3 months	6.5995-6.7465	4,755	31,789	1,330	—
3 to 6 months	6.5175-6.7115	6,237	41,124	918	—
7 to 12 months	6.5080-6.6502	10,366	67,722	301	—

As at December 31, 2022

	Average strike/ forward rate	Foreign currency	Total outstanding notional value	Fair value assets	Fair value liabilities
		US\$’000	RMB’000	RMB’000	RMB’000
Sell US\$					
Less than 3 months	6.4105-7.0525	5,805	38,374	68	(1,985)
4 to 6 months	6.8210-7.0185	2,119	14,655	141	(88)
7 to 11 months	6.7130-7.0050	4,607	32,037	590	(74)

As at December 31, 2020, 2021 and 2022, the aggregate amount after tax under foreign currency forward contracts recognized in other comprehensive income relating to the exposure on anticipated future sales transactions in US\$ was gains of RMB1,668,000, gains of RMB2,167,000 and losses of RMB1,146,000. The Group separates the intrinsic value and time value of forward extra contracts, designating only the intrinsic value as the hedging instrument. The time value, including any gains or losses, is recognized in other comprehensive income until the hedged transaction occurs and is recognized in profit or loss. It is anticipated that the sales denominated in US\$ related to foreign currency forward contracts will take place within next 12 months as at December 31, 2020, 2021 and 2022 at which time the amount deferred in equity will be recycled to profit or loss.

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During the years ended December 31, 2020, 2021 and 2022, and six months ended June 30, 2023, the aggregated amount of previously recognized in comprehensive income and accumulated in equity of gains of RMB733,000, gains of RMB6,103,000 and losses of RMB4,661,000, and losses of RMB611,000 are reclassified to revenue when the hedged item affects profit or loss.

31. LEASE LIABILITIES

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities payable:				
Within one year	—	2,249	4,413	2,828
Within a period of more than one year but not exceeding two years . .	—	—	1,627	2,477
	<u>—</u>	<u>2,249</u>	<u>6,040</u>	<u>5,305</u>
Less: amounts due within one year shown under current liabilities	—	(2,249)	(4,413)	(2,828)
Amounts shown under non-current liabilities	<u>—</u>	<u>—</u>	<u>1,627</u>	<u>2,477</u>

For the years ended December 31, 2020, 2021 and 2022, and six months ended June 30, 2023, the weighted average incremental borrowing rate applied to lease liabilities is nil, 4.75% and 4.90%, and 4.90%.

32. SHARE CAPITAL

AUTHORIZED:

	Number of shares	Par value	Authorized share capital
		US\$	US\$
On incorporation and as at December 31, 2020	50,000	1	50,000
Subdivision on September 13, 2021 and balance as at December 31, 2021 and 2022 (<i>notes iii and iv</i>)	1,000,000,000	0.00005	50,000
Creation of new shares (<i>note vi</i>)	9,000,000,000	0.00005	450,000
As at June 30, 2023	<u>10,000,000,000</u>	<u>0.00005</u>	<u>500,000</u>

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ISSUED AND FULLY PAID:

	Number of shares	Par value US\$	Share capital		Share premium
			US\$	RMB’000 equivalent	RMB’000 equivalent
As at January 1, 2020	—	—	—	—	—
Issue of new shares (<i>note i</i>) . . .	1	1	1	*	—
As at December 31, 2020	1	1	1	*	—
Repurchase (<i>note i</i>)	(1)	1	(1)	—	—
Issue of new shares (<i>note ii</i>). . .	5	1	5	*	—
	<u>5</u>	<u>1</u>	<u>5</u>	<u>*</u>	<u>—</u>
After subdivision:					
Subdivision of 5 shares into 100,000 shares of US\$0.00005 each (<i>note iii</i>)					
	100,000	0.00005	5	*	—
Issue of new shares (<i>note iv</i>) . . .	<u>999,900,000</u>	<u>0.00005</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
As at December 31, 2021	1,000,000,000	0.00005	5	*	—
Cancellation of shares (<i>note v</i>)					
	(400,000,000)	0.00005	N/A	N/A	N/A
Shares fully paid (<i>note iv</i>)	N/A	N/A	49,995	319	1,285,143
Re-issue of shares (<i>note v</i>)	<u>400,000,000</u>	<u>0.00005</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
As at December 31, 2022 and June 30, 2023.	<u>1,000,000,000</u>	<u>0.00005</u>	<u>50,000</u>	<u>319</u>	<u>1,285,143</u>

Notes:

- i. On December 14, 2020, the Company issued 1 new ordinary share to the initial subscriber at cash consideration of US\$1. On the same day, the ordinary share was transferred to Biologics Cayman at the same cash consideration. Subsequent on June 4, 2021, the Company repurchased the 1 ordinary share from Biologics Cayman at same cash consideration.
 - ii. On June 4, 2021, the Company issued and allotted 3 and 2 new ordinary shares at par value of US\$1 per share for cash consideration to Biologics Cayman and STA Pharmaceutical Hong Kong Investment Limited (“STA HK”), respectively.
 - iii. Further on September 13, 2021, the Company subdivided each ordinary share of a par value of US\$1 per share to 20,000 ordinary shares of a par value of US\$0.00005 per share.
 - iv. On September 29, 2021, additional 599,940,000 shares and 399,960,000 shares were issued and allotted at par to Biologics Cayman and STA HK, respectively. After the subdivision and the second allotment of shares, Biologics Cayman and STA HK held 600,000,000 and 400,000,000 shares, representing 60% and 40% shareholding in the Company, respectively. The total cash consideration for these shares amounted to approximately RMB1,285,462,000 was paid up in April 2022, to which RMB1,285,143,000 was recognized in share premium.
 - v. The 400,000,000 shares held by STA HK were cancelled on January 28, 2022, and re-issued on June 8, 2022, respectively.
 - vi. On June 30, 2023, the authorized share capital of the Company was increased from 1,000,000,000 ordinary shares to 10,000,000,000 ordinary shares by the creation of 9,000,000,000 ordinary shares at par value of US\$0.00005 each.
- * Amount below RMB1,000.

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33. FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes loans from related parties and lease liabilities disclosed in Notes 28 and 31 respectively, net of cash and cash equivalents, and equity attributable to the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the issue of new shares and bank borrowing, if necessary.

b. Categories of financial instruments

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Financial assets				
Financial assets at amortized cost . . .	55,472	160,832	794,207	1,241,149
Financial assets at FVTPL.	—	—	400,000	—
Derivative financial assets.	2,224	2,549	799	—
	—	—	—	—
Financial liabilities				
Financial liabilities at amortized cost.	17,899	813,236	777,891	726,548
Derivative financial liabilities	—	—	2,147	—
	—	—	—	—

c. Financial risk management objectives and policies

The Group’s major financial assets and liabilities include trade and other receivables, financial assets at FVTPL, derivative financial assets, other long-term deposits, bank balances and cash, derivative financial liabilities, trade and other payables and loans from related parties. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group’s activities expose it primarily to currency risk. There had been no change in the Group’s exposure to this risk or the manner in which it managed and measured the risk during the Track Record Period.

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Currency risk

Certain group entities have foreign currency transactions, including sales, which expose the Group to foreign currency risk. Certain of the Group’s bank balances and cash, trade and other receivables and trade and other payables are denominated in currencies other than the functional currency of the relevant group entities and expose to such foreign currency risk. The carrying amounts of relevant group entities’ foreign currency denominated monetary assets and liabilities other than their functional currency are disclosed in the respective notes.

The carrying amounts of the Group’s foreign currency denominated monetary assets (trade and other receivables and bank balances and cash) and liabilities (trade and other payables and loans from related parties) at the end of the reporting period are as follows:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Assets				
US\$	41,160	93,924	549,110	564,223
EUR	—	—	23,401	10,910
HK\$	—	—	5	1,663
Liabilities				
US\$	20	25,688	206,525	240,153
EUR	373	75	740	131
CHF	—	—	483	737

Sensitivity analysis

The following table details the Group’s sensitivity to a 5% increase and decrease in RMB against US\$, EUR, CHF and HK\$, the foreign currencies with which the Group may have a material exposure. No sensitivity analysis has been disclosed for the CHF and HK\$ denominated assets/liabilities as the impact on profit is immaterial. 5% represents management’s assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative number below indicates a decrease in post-tax profit where RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on post-tax profit and the amounts below would be positive.

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Impact on profit or loss sensitivity:					
US\$	(1,671)	(2,804)	(13,624)	(7,739)	(13,572)
EUR	15	3	(901)	(140)	(451)

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Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans from related parties and lease liabilities (see Notes 28 and 31 for details). The Group currently does not have any interest rate hedging policy. The management of the Group monitors the Group’s exposure on an on-going basis and will consider hedging interest rate risk should the need arises.

The Group is also exposed to cash flow interest rate risk in relation to bank balances.

Sensitivity analysis

Bank balances are excluded from sensitivity analysis as the management considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

Credit risk and impairment assessment

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group’s credit risk exposures are primarily attributable to trade and other receivables, contract assets, other long-term deposits, financial assets at FVTPL, and bank balances and cash. At the end of each reporting period, the Group’s maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of the financial position.

In order to minimize credit risk, the Group has developed and maintained the Group’s credit risk grading to categorize exposures according to their degree of risk of default. Management uses publicly available financial information and the Group’s own historical repayment records to rate its major customers and other debtors. The Group’s exposure and the credit ratings of its counterparties are continuously monitored and reviewed at the end of the reporting period to ensure the adequate impairment losses are made for irrecoverable amount.

The Group’s current credit risk grading framework comprises the following categories:

<u>Internal credit rating</u>	<u>Description</u>	<u>Trade receivables/ contract assets</u>	<u>Other financial assets</u>
Low risk	The counterparty has a low risk of default and does not have any past due amounts	Lifetime ECL-not credit-impaired	12-month ECL
Watch list.	Debtor frequently repays after due dates but usually settle after due date in full	Lifetime ECL-not credit-impaired	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL-not credit-impaired	Lifetime ECL-not credit-impaired

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Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL-credit-impaired	Lifetime ECL-credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group’s financial assets and contract assets which are subject to ECL assessment:

	Internal credit rating	12-month or lifetime ECL	As at December 31,			As at June 30,
			2020	2021	2022	2023
			Gross carrying amount	Gross carrying amount	Gross carrying amount	Gross carrying amount
			RMB’000	RMB’000	RMB’000	RMB’000
Financial assets at amortized cost						
Bank balances	Low risk	12-month ECL	28,390	26,325	334,972	561,644
Other receivables	Low risk	12-month ECL	2,687	44,070	2,893	5,394
Receivables for purchase of raw materials on behalf of customers . .	<i>(note i)</i>	12-month ECL	96	1,096	414	—
		Lifetime ECL	267	—	—	—
		(not credit-impaired)				
		Lifetime ECL (credit-impaired)	—	—	4,832	—
Trade receivables	<i>(note ii)</i>	Lifetime ECL (collective assessment)	24,171	100,036	443,381	691,247
		Lifetime ECL (individual assessment)	—	—	61,780	9,539
Other long-term deposit	Low risk	12-month ECL	150	150	—	368
Other item						
Contract assets	<i>(note ii)</i>	Lifetime ECL (collective assessment)	1,028	10,719	17,460	26,401
			<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Notes:

- i. For the purposes of internal credit risk management, the Group has applied the general approach in IFRS 9 to measure the loss allowance equal to 12m ECL for those current exposure at default of the debtors being assessed as not having significant increase in credit risk since initial recognition. For those having significant increase in credit risk since initial recognition, the Group recognized lifetime ECL.
- ii. For trade receivables and contract assets, the Group determines the ECL on collective basis by categorizing its customers into three types: low credit risk customers, normal credit risk customers and high credit risk customers, based on the financial quality of debtors and their historical credit loss experience according to the past due status adjusted, as appropriate, to reflect estimates of future economic conditions. Except for the customers which are assessed individually, the Group determines the ECL based on their historical credit loss experience according to the past due status adjusted, as appropriate, to reflect current conditions and estimates of future economic conditions.

Trade receivables and contract assets

The Group performs impairment assessment under ECL model on trade receivables with significant balances and different credit risk characteristics individually and/or collectively based on appropriate groupings. Except for items which are assessed for impairment individually, the remaining trade receivables and contract assets are grouped based on shared credit risk characteristics by reference to the Group’s internal credit ratings.

As at December 31, 2020, 2021 and 2022, and June 30, 2023, the Group provided RMB281,000, RMB10,843,000 and RMB23,998,000, and RMB24,931,000 impairment allowance for trade receivables, based on collective assessment.

As at December 31, 2020, 2021 and 2022, and June 30, 2023, the Group provided nil, RMB2,000 and RMB151,000, and RMB1,736,000 impairment allowance for contract assets, based on collective assessment.

As at December 31, 2020, 2021 and 2022, and June 30, 2023, impairment allowance of nil, nil and RMB27,892,000, and RMB3,167,000 was assessed individually on trade receivables with gross carrying amount of nil, nil and RMB61,780,000, and RMB9,539,000.

The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on collective basis within lifetime ECL (not credit-impaired) as at December 31, 2022, 2021 and 2020, and June 30, 2023 within lifetime ECL:

Gross carrying amount

<u>Internal credit rating</u>	<u>As at December 31, 2020</u>		
	<u>Average loss rate</u>	<u>Trade receivables</u>	<u>Contract assets</u>
		<u>RMB’000</u>	<u>RMB’000</u>
Grade A: Low risk and watch list	0.03%	24,171	1,028
Grade B: Doubtful	N/A	—	—
Grade C: Loss	N/A	—	—
		<u>24,171</u>	<u>1,028</u>

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Gross carrying amount

<u>Internal credit rating</u>	As at December 31, 2021		
	Average loss rate	Trade receivables	Contract assets
		RMB’000	RMB’000
Grade A: Low risk and watch list	0.03%	100,036	10,719
Grade B: Doubtful	N/A	—	—
Grade C: Loss	N/A	—	—
		<u>100,036</u>	<u>10,719</u>

Gross carrying amount

<u>Internal credit rating</u>	As at December 31, 2022		
	Average loss rate	Trade receivables	Contract assets
		RMB’000	RMB’000
Grade A: Low risk and watch list	0.03%	372,025	15,665
Grade B: Doubtful	0.61%	62,560	1,707
Grade C: Loss	100%	8,796	88
		<u>443,381</u>	<u>17,460</u>

Gross carrying amount

<u>Internal credit rating</u>	As at June 30, 2023		
	Average loss rate	Trade receivables	Contract assets
		RMB’000	RMB’000
Grade A: Low risk and watch list	0.03%	433,730	18,974
Grade B: Doubtful	0.89%	230,022	7,427
Grade C: Loss	100%	27,495	—
		<u>691,247</u>	<u>26,401</u>

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management of the Group to ensure relevant information about specific debtors is updated. The contract assets have substantially the same risk characteristics as the trade receivables for the same type of contracts. The relevant inputs used in determining the expected credit loss rate for grade A customers were relatively stable during the Track Record Period, as such, the expected credit loss rate for grade A customers remained the same during the Track Record Period. The Group has therefore concluded that the loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

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The following table shows the movement in lifetime ECL that has been recognized for trade receivables and contract assets under the simplified approach.

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB’000	RMB’000	RMB’000
As at January 1, 2020	—	—	—
– Impairment losses recognized.	(281)	—	(281)
As at December 31, 2020	(281)	—	(281)
– Impairment losses recognized.	(6,229)	(4,335)	(10,564)
As at December 31, 2021	(6,510)	(4,335)	(10,845)
– Impairment losses recognized.	(8,788)	(32,408)	(41,196)
As at December 31, 2022	(15,298)	(36,743)	(52,041)
– Impairment losses reversed	6,587	15,620	22,207
As at June 30, 2023	(8,711)	(21,123)	(29,834)

The following table shows the reconciliation of loss allowances that has been recognized for receivables for purchase of raw materials on behalf of customers.

	Lifetime ECL (not credit-impaired)
	RMB’000
As at January 1, 2020	—
– Impairment losses recognized.	(8)
As at December 31, 2020	(8)
– Impairment losses reversed.	6
As at December 31, 2021	(2)
– Impairment losses recognized.	(2,173)
As at December 31, 2022	(2,175)
– Impairment losses reversed.	2,175
As at June 30, 2023	—

For the purposes of impairment assessment, other financial assets including other receivables, financial assets at FVTPL, and bank balances and cash are considered to have low credit risk. Accordingly, for the purpose of impairment assessment for these financial assets, the loss allowance is measured at an amount equal to 12-month ECL. In determining the ECL for these financial assets at amortized cost, the directors of the Company have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of the other financial assets at amortized cost occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the 12-month ECL allowance is insignificant at the end of each reporting period.

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Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by the management to finance the Group’s operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group’s remaining contractual maturity for its financial liabilities and derivative instrument. The table has been drawn up based on the undiscounted cash flows of financial liabilities according to the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

In addition, the following table details the Group’s liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group’s derivative financial instruments are prepared based on the contractual settlement dates as the management considers that the settlement dates are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average interest rate	On demand or less than one year	One to five years	More than 5 years	Total un- discounted cash flows	Total carrying amounts
	%	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As at December 31, 2020						
Trade and other payables	N/A	17,899	—	—	17,899	17,899
As at December 31, 2021						
Trade and other payables	N/A	790,893	—	—	790,893	790,893
Loans from related parties	1.85-4.18	22,763	—	—	22,763	22,343
Total financial liabilities		813,656	—	—	813,656	813,236
Lease liabilities	4.75	2,308	—	—	2,308	2,249
		<u>815,964</u>	<u>—</u>	<u>—</u>	<u>815,964</u>	<u>815,485</u>
As at December 31, 2022						
Trade and other payables	N/A	706,747	—	—	706,747	706,747
Loans from related parties	1.75-4.36	73,708	—	—	73,708	71,144
Total financial liabilities		780,455	—	—	780,455	777,891
Lease liabilities	4.90	4,531	1,958	—	6,489	6,040
		<u>784,986</u>	<u>1,958</u>	<u>—</u>	<u>786,944</u>	<u>783,931</u>
Derivative – net settlement						
Foreign currency forward		2,147	—	—	2,147	2,147
As at June 30, 2023						
Trade and other payables	N/A	726,548	—	—	726,548	726,548
Lease liabilities	4.90	2,860	2,849	—	5,709	5,305
		<u>729,408</u>	<u>2,849</u>	<u>—</u>	<u>732,257</u>	<u>731,853</u>

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d. Fair value measurements of financial instruments

Some of the Group’s financial instruments are measured at fair value for financial reporting purposes. The directors of the Company have set up a valuation committee, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value, the Group uses market-observable data to the extent it is available.

(i) Fair value of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group’s financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

<u>Financial assets/ financial liabilities</u>	<u>Fair value as at December 31, 2020</u>	<u>Fair value hierarchy</u>	<u>Valuation technique and key inputs</u>	<u>Significant unobservable inputs</u>
Foreign currency forward . .	Derivative financial assets: RMB2,224,000	Level 2	Future cash flows are estimated based on forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of the banks.	N/A
<u>Financial assets/ financial liabilities</u>	<u>Fair value as at December 31, 2021</u>	<u>Fair value hierarchy</u>	<u>Valuation technique and key inputs</u>	<u>Significant unobservable inputs</u>
Foreign currency forward . .	Derivative financial assets: RMB2,549,000	Level 2	Future cash flows are estimated based on forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of the banks.	N/A

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Financial assets/ financial liabilities	Fair value as at December 31, 2022	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Financial assets at FVTPL .	Wealth management products: RMB400,000,000	Level 2	Discounted cash flows method, estimated based on expected return and market foreign exchange rate	N/A
Foreign currency forward . .	Derivative financial assets: RMB799,000 Derivative financial liabilities: RMB2,147,000	Level 2	Future cash flows are estimated based on forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of the banks.	N/A

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group considers the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information approximate their fair value.

The fair values of these financial assets and financial liabilities at amortized cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

34. RETIREMENT BENEFIT PLANS

The employees of the Group’s subsidiaries are members of the state-managed retirement benefits schemes operated by government. The subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to profit or loss in respect of the above-mentioned schemes amounted to approximately RMB285,000, RMB6,850,000, RMB14,526,000 for the years ended December 31, 2020, 2021 and 2022, respectively and RMB5,378,000 and RMB12,286,000 for six months ended June 30, 2022 (unaudited) and June 30, 2023, respectively.

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35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Obligations arising from equity transaction	Lease liabilities	Accrued issue cost	Loans from related parties	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As at January 1, 2020	—	—	—	—	—
Net financing cash flows	69,116	—	—	—	69,116
Capital contribution from equity holders	(69,116)	—	—	—	(69,116)
As at December 31, 2020	—	—	—	—	—
Net financing cash flows	—	—	—	22,343	22,343
<i>Non-cash changes</i>					
Interest expenses	—	69	—	—	69
New lease extended	—	3,335	—	—	3,335
Lease modification	—	(1,155)	—	—	(1,155)
As at December 31, 2021	—	2,249	—	22,343	24,592
Net financing cash flows	1,285,462	(6,050)	—	48,801	1,328,213
Issue of shares	(1,285,462)	—	—	—	(1,285,462)
<i>Non-cash changes</i>					
Interest expenses	—	325	—	—	325
New lease extended	—	1,514	—	—	1,514
Lease modification	—	8,002	—	—	8,002
As at December 31, 2022	—	6,040	—	71,144	77,184
Net financing cash flows	—	(2,481)	(104)	(71,144)	(73,729)
<i>Non-cash changes</i>					
Interest expenses	—	149	—	—	149
Deferred issue cost	—	—	1,054	—	1,054
New lease extended	—	1,597	—	—	1,597
As at June 30, 2023	—	5,305	950	—	6,255
As at December 31, 2021	—	2,249	—	22,343	24,592
Net financing cash flows	1,285,462	(2,773)	—	48,901	1,331,590
Issue of shares	(1,285,462)	—	—	—	(1,285,462)
<i>Non-cash changes</i>					
Interest expenses	—	192	—	—	192
New lease extended	—	1,514	—	—	1,514
Lease modification	—	8,002	—	—	8,002
As at June 30, 2022 (unaudited) . .	—	9,184	—	71,244	80,428

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36. ACQUISITION OF BUSINESS

Acquisition of Payload and Linker Business

XDC Changzhou, a subsidiary of the Group, entered into an agreement with STA Changzhou, a related party, to acquire the payload and linker business (the “Payload and Linker Business”) for a cash consideration of RMB280,000,000. The purpose of the acquisition was to reinforce the Group’s capabilities of end-to-end contract development and manufacturing of bioconjugates including antibody-drug conjugates.

The acquisition has been accounted for as acquisition of business using the acquisition method. Acquisition-related costs were not material and have been expensed as incurred as part of administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets as at September 30, 2021

	RMB’000
Property, plant and equipment	6,407
Intangible assets	58,400
	<u>64,807</u>

Goodwill arising on acquisition

	RMB’000
Consideration payable	280,000
Less: recognized amounts of net assets acquired	<u>(64,807)</u>
Goodwill arising on acquisition	<u>215,193</u>

Goodwill arose on the acquisition of Payload and Linker Business because the acquisition included the assembled workforce as well as ongoing and potential projects from existing customers as at the date of acquisition. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the acquisitions is expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

Included in the profit for the years/period ended December 31, 2020, 2021, 2022 and June 30, 2023 are nil, loss of RMB1,547,000, profit of RMB57,716,000 and profit of RMB28,210,000, respectively, attributable to the Payload and Linker Business. Revenue generated from Payload and Linker Business for the years/period ended December 31, 2020, 2021, 2022 and June 30, 2023 included nil, RMB8,156,000, RMB220,423,000 and RMB119,280,000, respectively.

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Had the acquisition of Payload and Linker Business been completed on January 1, 2020, revenue for the years ended December 31, 2020 and 2021 of the Group from continuing operations would have been RMB154,534,000 and RMB442,472,000, respectively, and profit for the years ended December 31, 2020 and 2021 from continuing operations would have been RMB52,327,000 and RMB113,647,000, respectively. The [REDACTED] information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2020, nor is it intended to be a projection of future results.

In determining the ‘pro-forma’ revenue and profit of the Group had Payload and Linker Business been acquired at the beginning of the Track Record Period, the management of the Group calculated depreciation of property, plant and equipment and amortization of intangible assets based on the recognized amounts of property, plant and equipment and intangible assets at the date of the acquisition.

Pre-acquisition financial information

The pre-acquisition financial information of Payload and Linker Business is for the period from January 1, 2020 to September 30, 2021 (the “Pre-acquisition Period”), has been prepared in accordance with the accounting policies set out in Note 4 above, which conform with IFRSs issued by IASB.

Statement of Profit or Loss and Other Comprehensive Income

	Year ended December 31,	Nine months ended September 30,
	2020	2021
	RMB’000	RMB’000
Revenue	58,181	131,341
Cost of sales and services	(19,210)	(56,021)
Gross profit	38,971	75,320
Other gains and losses	—	(11)
Impairment losses, under expected credit loss model, net of reversal	(115)	7
Selling and marketing expenses	(7)	(7)
Administrative expenses	(1,306)	(926)
Research and development expenses	(1,506)	(1,322)
Profit before tax	36,037	73,061
Income tax expenses	(5,615)	(10,971)
Profit and total comprehensive income for the year/period . . .	30,422	62,090

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Statement of Financial Position

	As at December 31, 2020 RMB’000	As at September 30, 2021 RMB’000
Non-current asset		
Property and equipment	6,971	6,407
Current assets		
Trade receivables	12,564	—
Contract costs.	17,850	—
	<u>30,414</u>	<u>—</u>
Current liabilities		
Other payables	221	—
Contract liabilities	6,576	—
	<u>6,797</u>	<u>—</u>
Net current assets	<u>23,617</u>	<u>—</u>
Total assets less current liabilities/Net assets.	<u>30,588</u>	<u>6,407</u>
Capital and reserve		
Retained earnings	44,456	106,546
Other reserve	(13,868)	(100,139)
Total equity.	<u>30,588</u>	<u>6,407</u>

Statement of Changes in Equity

	Retained earnings RMB’000	Other reserve RMB’000	Total equity RMB’000
At January 1, 2020	14,034	514	14,548
Total comprehensive income for the year	30,422	—	30,422
Net distribution to STA Changzhou (<i>note</i>)	—	(14,382)	(14,382)
As at December 31, 2020	44,456	(13,868)	30,588
Total comprehensive income for the period	62,090	—	62,090
Net distribution to STA Changzhou (<i>note</i>)	—	(86,271)	(86,271)
As at September 30, 2021	<u>106,546</u>	<u>(100,139)</u>	<u>6,407</u>

Note: Net distribution to STA Changzhou represents the net equity generated by the Payload and Linker Business and retained in STA Changzhou prior to acquisition.

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Statement of Cash Flows

Prior to acquisition of the Payload and Linker Business, the Payload and Linker Business was operated under STA Changzhou and no separate bank accounts were maintained for the Payload and Linker Business. The treasury and cash disbursement functions of the Payload and Linker Business were centrally administrated by STA Changzhou. The net equity generated in respect of the operations of Payload and Linker Business by STA Changzhou, are reflected in “Net distribution to STA Changzhou” in the statement of cash flows and presented as movements in the equity.

For the purpose of presenting a complete set of pre-acquisition financial information of the Payload and Linker Business, the following comprises the information of cash inflow/outflow of the Payload and Linker Business received/paid by STA Changzhou prior to and during the transition period after the transfer of Payload and Linker Business.

	<u>Year ended December 31,</u>	<u>Nine months ended September 30,</u>
	<u>2020</u>	<u>2021</u>
	<u>RMB’000</u>	<u>RMB’000</u>
OPERATING ACTIVITIES		
Profit before tax	36,037	73,061
Adjustments for:		
Depreciation of property and equipment	875	553
Impairment loss, net of reversal		
– trade receivables	115	(7)
Operating cash flows before movements in working capital	37,027	73,607
(Increase) decrease in trade receivables	(4,886)	12,572
(Increase) decrease in contract costs	(17,157)	17,850
Increase (decrease) in other payables	701	(222)
Increase (decrease) in contract liabilities	6,576	(6,576)
Cash generated from operations	22,261	97,231
NET CASH FROM OPERATING ACTIVITIES	<u>22,261</u>	<u>97,231</u>
INVESTING ACTIVITIES		
Proceeds on disposal of property and equipment	46	11
Purchases of property and equipment	(1,592)	—
NET CASH (USED IN) FROM IN INVESTING ACTIVITIES	<u>(1,546)</u>	<u>11</u>
Net distribution to STA Changzhou	(20,715)	(97,242)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>—</u>	<u>—</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	<u>—</u>	<u>—</u>

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(a) *Revenue and segment information*

	Year ended December 31,	Nine months ended September 30,
	2020	2021
	RMB’000	RMB’000
Timing of revenue recognition		
A point in time		
– Research services on FFS basis	58,181	131,341

Geographical information

An analysis of the Group’s revenue from external customers, analyzed by their respective country/region of operation, is detailed below:

	Year ended December 31, 2020	Nine months ended September 30, 2021
	RMB’000	RMB’000
Revenue		
– North America	38,778	84,437
– PRC	5,909	8,209
– Europe	11,248	38,695
– Rest of the world	2,246	—
	<u>58,181</u>	<u>131,341</u>

(b) *Profit before tax*

Profit before tax for has been arrived at after charging (crediting):

	Year ended December 31,	Nine months ended September 30,
	2020	2021
	RMB’000	RMB’000
Depreciation for property and equipment	875	553
Staff cost (including directors’ emoluments):		
– Salaries and other benefits	7,929	18,638
– Retirement benefits scheme contributions	1,308	3,075
Impairment losses, under expected credit loss model, net of reversal		
– Trade receivables	115	(7)

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(c) *Income tax expenses*

	Year ended December 31,	Nine months ended September 30,
	2020	2021
	RMB’000	RMB’000
Current tax		
– EIT	5,615	10,971

Income tax expense was calculated based on the tax rate of STA Changzhou at 15% as if the Payload and Linker Business is a separate tax reporting entity.

STA Changzhou operating in the PRC is accredited as “High and New Technology Enterprise” and therefore entitled to a preferential EIT rate.

(d) *Property and equipment*

	Machinery	Furniture, fixture and equipment	Total
	RMB’000	RMB’000	RMB’000
COST			
As at January 1, 2020	7,018	253	7,271
Additions	1,552	40	1,592
As at December 31, 2020	8,570	293	8,863
Disposals	(40)	(6)	(46)
As at September 30, 2021	8,530	287	8,817
DEPRECIATION			
As at January 1, 2020	965	52	1,017
Provided for the year	834	41	875
As at December 31, 2020	1,799	93	1,892
Provided for the period	524	29	553
Eliminated on disposals	(33)	(2)	(35)
As at September 30, 2021	2,290	120	2,410
CARRYING VALUES			
As at December 31, 2020	6,771	200	6,971
As at September 30, 2021	6,240	167	6,407

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(e) *Contract costs*

	As at December 31,	As at September 30,
	2020	2021
	RMB’000	RMB’000
Costs to fulfill contracts	17,850	—

(f) *Trade receivables*

	As at December 31,	As at September 30,
	2020	2021
	RMB’000	RMB’000
Trade receivables	12,679	—
Less: allowance for credit losses	(115)	—
Total trade receivables	12,564	—

The Payload and Linker Business allows a credit period ranging from 10 to 90 days to its customers. The following is an aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice dates:

	As at December 31,	As at September 30,
	2020	2021
	RMB’000	RMB’000
Not past due.	7,878	—
Overdue:		
– Within 180 days	3,335	—
– 181 days to 1 year.	1,351	—
	12,564	—

(g) *Contract liabilities*

	As at December 31,	As at September 30,
	2020	2021
	RMB’000	RMB’000
Within one year	6,576	—

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37. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties and the relationship with the Group are as follows:

WuXi Biologics group represents Biologics Cayman, its subsidiaries and its associates excluding the Group.

WuXi AppTec group represents WuXi AppTec Co., Ltd. and its subsidiaries. WuXi AppTec Group is ultimately controlled by certain substantial shareholders of the Group’s ultimate holding company.

Chengdu Kangde Renze Real Estate Co., Ltd (“Renze”) is controlled by one of the directors of the Group’s ultimate holding company.

In addition to the balances disclosed in Notes 24, 25, 27 and 28, the Group had the following significant transactions and balances with related parties:

(a) Related party transactions

Provision of antibody drug conjugates discovery, research & development and manufacturing services (included in revenue)

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
WuXi Biologics group	81,730	258,460	370,805	215,422	136,244
WuXi AppTec group	—	7,311	2,323	1,248	7,983
	<u>81,730</u>	<u>265,771</u>	<u>373,128</u>	<u>216,670</u>	<u>144,227</u>

Sales of materials to related parties (included in other income)

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(unaudited)	
WuXi Biologics group	<u>246</u>	<u>445</u>	<u>1,930</u>	<u>1,313</u>	<u>3,730</u>

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Sales of property, plant and equipment to related parties

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
WuXi Biologics group	1,125	38,265	1,633	41	254

Provision of leasing and other services to related parties (included in other income)

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
WuXi Biologics group	39	6,668	3,831	1,614	1,122

Antibodies master services (included in cost of sales and services)

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
WuXi Biologics group	1,476	20,193	355,710	57,971	444,974
WuXi AppTec group	–	19,479	66,547	9,225	59,529
	1,476	39,672	422,257	67,196	504,503

Other service received (included in cost of sales and services and administrative expenses)

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
WuXi Biologics group	407	9,779	85,437	15,405	32,187
WuXi AppTec group	–	294	1,034	396	3,019
	407	10,073	86,471	15,801	35,206

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Purchase of materials (included in cost of sales and services)

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
WuXi Biologics group	3,690	15,887	23,755	8,611	15,951
WuXi AppTec group.	–	3,569	65,324	6,340	2,443
	<u>3,690</u>	<u>19,456</u>	<u>89,079</u>	<u>14,951</u>	<u>18,394</u>

Purchase of property, plant and equipment

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
WuXi Biologics group	964	213	1,618	156	5,020
WuXi AppTec group.	26	–	–	45	–
Renze	–	–	3,599	–	30
	<u>990</u>	<u>213</u>	<u>5,217</u>	<u>201</u>	<u>5,050</u>

Interest expense on loans from related parties

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
WuXi Biologics group	–	424	2,591	1,381	420

Interest expense on lease liabilities

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
WuXi AppTec group.	–	69	325	192	149

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Expense relating to leases

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000 (unaudited)	RMB’000
WuXi AppTec group	—	1,154	3,865	2,148	2,154

(b) Related party balances

As at December 31, 2020, 2021 and 2022, and six months ended June 30, 2023, the Group had balances with related parties as follows:

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Amounts due from related parties – Trade related				
Included in trade receivables:				
WuXi Biologics group	18,347	63,209	132,204	78,080
WuXi AppTec group	—	—	2,462	10,668
	<u>18,347</u>	<u>63,209</u>	<u>134,666</u>	<u>88,748</u>
Included in other receivables:				
Wuxi Biologics group	—	42,805	679	4,750
Less: allowance for credit losses	(261)	(6,405)	(13,520)	(3,349)
	<u>18,086</u>	<u>99,609</u>	<u>121,825</u>	<u>90,149</u>
	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Amounts due from related parties – Non-trade related				
Included in other receivables:				
WuXi Biologics group	38	405	1,633	3

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	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Contract assets – Trade related				
WuXi AppTec group	–	7,684	7,685	7,685
Less: allowance for credit losses	–	(2)	(44)	(73)
	<u>–</u>	<u>7,682</u>	<u>7,641</u>	<u>7,612</u>

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Amounts due to related parties – Trade related				
Included in trade payables:				
WuXi Biologics group	24	859	378,779	429,597
WuXi AppTec group	–	21,646	78,516	55,159
	<u>24</u>	<u>22,505</u>	<u>457,295</u>	<u>484,756</u>
Included in other payables:				
WuXi Biologics group	702	39,484	84,752	127,427
WuXi AppTec group	–	1,570	22,594	1,882
	<u>726</u>	<u>63,559</u>	<u>564,641</u>	<u>614,065</u>

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Amounts due to related parties – Non-trade related				
Included in other payables:				
WuXi Biologics group	990	213	1,618	2,144
Renze	–	–	189	219
	<u>990</u>	<u>213</u>	<u>1,807</u>	<u>2,363</u>

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Loans from related parties – Non-trade related				
WuXi Biologics group	–	22,343	71,144	–
	<u>–</u>	<u>22,343</u>	<u>71,144</u>	<u>–</u>

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	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Consideration payable for acquisition Payload and Linker Business – Non-trade related				
WuXi AppTec group	—	280,000	—	—

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Consideration payable for acquisition of XDC Wuxi to the Group – Non-trade related				
WuXi Biologics group	—	404,413	—	—

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Consideration payable for acquisition of BCD Business Unit to the Group – Non-trade related				
WuXi Biologics group	—	—	15,587	5,710

Except for loan payables and lease liabilities, all the above balances with related parties are unsecured, interest free and repayable on demand. The non-trade related balances as at December 31, 2020, 2021, 2022 and June 30, 2023 will be settled prior to the [REDACTED].

(c) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management of the Group during the Track Record Period was as follows:

	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Director’s fee	—	—	—	—	—
Salaries and other benefits	2,541	2,600	3,243	1,578	2,149

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	Year ended December 31,			Six months ended June 30,	
	2020	2021	2022	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Performance-based bonus	984	1,032	1,297	631	856
Retirement benefits scheme contributions	—	—	—	—	3
Share-based compensation	1,678	5,250	15,288	4,984	6,643
	<u>5,203</u>	<u>8,882</u>	<u>19,828</u>	<u>7,193</u>	<u>9,651</u>

The remuneration of key management is determined with reference to the performance of the individuals and market trends.

38. SHARE-BASED COMPENSATION

Equity instruments granted by Biologics Cayman to employees of the Group

Pursuant to the WXB Share Option Scheme, WXB Restricted Share Award Scheme and WXB Global Partner Program Share Scheme, certain directors of the Company and employees of the Group were issued shares of Biologics Cayman.

(a) WXB [REDACTED] Share Option Scheme

Biologics Cayman’s [REDACTED] Share Option Scheme was adopted pursuant to resolutions passed on January 5, 2016 for the primary purpose of attracting, retaining and motivating employees and directors. Under the WXB [REDACTED] Share Option Scheme, the directors of the Biologics Cayman may grant up to 144,600,000 (before the effect of the Share Subdivision¹) share options to eligible employees, including the directors of Biologics Cayman and its subsidiaries, to subscribe for shares in Biologics Cayman. Grantee accepting an option grant offered by Biologics Cayman has to sign an acceptance letter and pay to Biologics Cayman an amount of HK\$1.00 (before the effect of the Share Subdivision) as consideration for the grant.

The Group recognized total expense of approximately RMB709,000, RMB377,000 and RMB59,000 for the years ended December 31, 2020, 2021 and 2022, respectively and RMB59,000 and nil for six months ended June 30, 2022 (unaudited) and June 30, 2023, respectively in relation to share options granted by Biologics Cayman under the WXB [REDACTED] Share Option Scheme.

¹ Pursuant to a shareholders’ resolution passed at an extraordinary general meeting on November 12, 2020, the authorized and issue shares of Biologics Cayman were subdivided on the basis that every one issued share is subdivided into three subdivided shares (the “Share Subdivision”). The Share Subdivision became effective on November 16, 2020.

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(b) WXB Restricted Share Award Scheme

On January 15, 2018, Biologics Cayman adopted the WXB Restricted Share Award Scheme for the primary purpose of (i) recognizing the contributions by certain employees of the Group of Biologics Cayman and directors of Biologics Cayman (the “Selected Participants under WXB Restricted Share Award Scheme”); (ii) encouraging, motivate and retain the Selected Participants under WXB Restricted Share Award Scheme, whose contributions are beneficial to the continual operation, development and long-term growth of the Group of Biologics Cayman; and (iii) providing additional incentive for the Selected Participants under WXB Restricted Share Award Scheme to achieve performance goals, with a view to achieving the objectives of increasing the value of the Group of Biologics Cayman and aligning the interests of the Selected Participants under WXB Restricted Share Award Scheme to the shareholders of Biologics Cayman through ownership of shares. The total number of the restricted shares underlying all grants made pursuant to the WXB Restricted Share Award Scheme shall not exceed three percent of the issued share capital of Biologics Cayman as at the adoption date (i.e. 34,953,032 shares before the effect of the Share Subdivision).

During the year ended December 31, 2022, certain employees of Biologics Cayman were offered, and agreed to join the [REDACTED] Share Option Scheme. Upon participating in the [REDACTED] Share Option Scheme, share options under the [REDACTED] Share Option Scheme were granted to the employees while the outstanding restricted shares granted under the WXB Restricted Share Award Scheme held by the respective employees were cancelled in the same time accordingly. The directors of Biologics Cayman considered that most of the cancelled restricted shares under the WXB Restricted Share Award Scheme were replaced by the share options granted under the [REDACTED] Share Option Scheme, which was accounted for as a modification of the original equity instruments with no incremental fair value granted, therefore, such outstanding restricted shares would continue to be measured at the original grant-date fair value and the corresponding share-based compensation expense would be recognized in profit or loss over the original vesting periods. The remaining cancelled restricted shares were deemed to be accounted for as an acceleration of vesting, and the Group recognized immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

The Group recognized total expense of approximately RMB5,767,000, RMB21,780,000 and RMB10,505,000 for the years ended December 31, 2020, 2021 and 2022, respectively and RMB8,686,000 and RMB4,702,000 for six months ended June 30, 2022 (unaudited) and June 30, 2023, respectively in relation to restricted shares granted by Biologics Cayman under the WXB Restricted Share Award Scheme.

(c) WXB Global Partner Program Share Scheme

On June 16, 2021, Biologics Cayman adopted a global partner program share scheme to further reward and incentivize the Group of Biologics Cayman’s top employees and attract key talents (the “Selected Participants under WXB Global Partner Program Share Scheme”) to ensure the continuous business development and growth of Biologics Cayman and to further align the interests of the top employees and the shareholders of Biologics Cayman. The Selected Participants under WXB Global Partner Program Share Scheme who have significant contributions to the Group of Biologics Cayman’s business development and growth will be granted restricted shares under the WXB Global Partner Program Share Scheme. The number of restricted shares to be granted will be determined based on various performance-related considerations, such as the fulfilment by the respective Selected Participants under WXB Global Partner Program Share Scheme of their individual performance targets as well as the overall

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business performance of the Group of Biologics Cayman as a whole. The total number of the restricted shares underlying all grants made pursuant to the WXB Global Partner Program Share Scheme shall not exceed three percent of the total number of shares of Biologics Cayman in issue as at the adoption date (i.e. 126,982,689 shares).

The Group recognized total expense of approximately nil, nil and RMB312,000 for the years ended December 31, 2020, 2021 and 2022, respectively and RMB59,000 and nil for six months ended June 30, 2022 (unaudited) and June 30, 2023, respectively in relation to restricted shares granted by Biologics Cayman under the WXB Global Partner Program Share Scheme.

Equity instruments granted by the Company to employees of the Group

(a) 2021 [REDACTED] Share Option Scheme

On November 23, 2021 the Company adopted the 2021 [REDACTED] Share Option Scheme for the primary purpose to enable the Company to grant share options to eligible participants as incentives or rewards for their contribution to the Group so as to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group. Eligible participants for the 2021 [REDACTED] Share Option Scheme include any full-time or part-time employees, executives, officers or directors of the Company. The maximum number of the Company shares which may be issued upon exercise of all share options to be granted under the 2021 [REDACTED] Share Option Scheme and other share option schemes of the Company shall not in aggregate exceed 10% of the total number of the Company shares in issue as at the adoption date (i.e. 100,000,000 shares) (the “2021 [REDACTED] Share Option Scheme Mandate Limit”). Share options lapsed in accordance with the terms of the [REDACTED] Share Option Scheme will not be counted for the purpose of calculating the 2021 [REDACTED] Share Option Scheme Mandate Limit.

The option granted under the 2021 [REDACTED] Share Option Scheme can only be vested in the following manners (each date on which any portion of options granted shall be vested is hereinafter referred to as a “Vesting Date of 2021 [REDACTED] Share Option Scheme” and each batch on which any portion of options granted shall be vested is hereinafter referred to as a “Batch under 2021 [REDACTED] Share Option Scheme”):

<u>Batch under 2021 [REDACTED] Share Option Scheme</u>	<u>Vesting Date of 2021 [REDACTED] Share Option Scheme</u>
twenty percent (20%) of the restricted shares so granted.	second (2nd) anniversary of the grant date for a Company’s share option
twenty percent (20%) of the restricted shares so granted.	third (3rd) anniversary of the grant date for a Company’s share option
twenty percent (20%) of the restricted shares so granted.	fourth (4th) anniversary of the grant date for a Company’s share option
forty percent (40%) of the restricted shares so granted.	fifth (5th) anniversary of the grant date for a Company’s share option

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Set out below are details of the movements of the outstanding share options granted under the 2021 [REDACTED] Share Option Scheme during the year ended December 31, 2022 and six months ended June 30, 2023:

Batch	Outstanding as at January 1, 2022	Granted	Exercised	Forfeited	Outstanding as at December 31, 2022
Employee					
April 1, 2022	—	20,907,270	—	2,537,721	18,369,549
August 18, 2022	—	9,052,830	—	450,574	8,602,256
Director					
June 10, 2022	—	32,160,000	—	—	32,160,000
	—	62,120,100	—	2,988,295	59,131,805
Exercisable at the end of the year	—				—
Weighted average exercise price (RMB)	—	1.6860	—	1.6869	1.6859
Batch	Outstanding as at January 1, 2023	Granted	Exercised	Forfeited	Outstanding as at June 30, 2023
Employee					
April 1, 2022	18,369,549	—	—	—	18,369,549
August 18, 2022	8,602,256	—	—	—	8,602,256
January 6, 2023	—	18,517,841	—	—	18,517,841
Director					
June 10, 2022	32,160,000	—	—	—	32,160,000
	59,131,805	18,517,841	—	—	77,649,646
Exercisable at the end of the period	—				—
Weighted average exercise price (RMB)	1.6859	1.6859	—	—	1.6859

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The estimated fair value of the share options at the date of grant were approximately RMB20,602,000, RMB34,331,000, RMB8,984,000 and RMB17,330,000 for the April 1, 2022, June 10, 2022, August 18, 2022 and January 6, 2023 option batch, respectively. The fair value was calculated using the Binomial model. The major inputs into the model are as follows:

Grant date	April 1, 2022	June 10, 2022	August 18, 2022	January 6, 2023
Equity value per share (RMB)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Exercise price (RMB)	1.658	1.658	1.850	1.868
Expected volatility	47.6%	47.9%	47.9%	43.6%
Expected life (years)	10	10	10	10
Risk-free interest rate	2.81%	2.81%	2.78%	2.89%
Forfeiture rate	3.70%	—	3.70%	3.70%

The risk-free interest rate was based on market yield rate of China government bonds with the term corresponding to the contractual life of the options. Expected volatility was determined by using the historical volatility of the comparable companies. Changes in variables and assumptions may result in changes in the fair values of the share options.

The variables and assumptions used in computing the fair value of the share options are based on the directors’ best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognized total expense of approximately nil, nil and RMB27,750,000 for the years ended December 31, 2020, 2021 and 2022, respectively and RMB1,791,000 and RMB30,145,000 for six months ended June 30, 2022 (unaudited) and June 30, 2023, respectively in relation to options granted by the Company under the 2021 [REDACTED] Share Option Scheme.

(b) 2023 [REDACTED] Share Option Scheme

The Group adopted the 2023 [REDACTED] Share Option Scheme on March 22, 2023, the principal terms of which are summarized in “2023 [REDACTED] Share Option Scheme” in Appendix IV to this document.

39. CAPITAL COMMITMENTS

The Group had capital commitments for equipment purchase and building construction under non-cancellable contracts as follows:

	As at December 31,			Six months ended June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Contracted but not provided for				
– property, plant and equipment. . . .	39,766	124,413	126,572	159,922

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40. OPERATING LEASE ARRANGEMENTS

The Group as lessor

As at December 31, 2020, 2021 and 2022, and June 30, 2023, the Group’s investment property with carrying amounts of nil, RMB13,215,000 and RMB12,812,000, and RMB12,610,000 were held for rental purposes.

Undiscounted lease payments receivable on leases are as follows:

	As at December 31,			Six months ended June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Within one year	—	2,963	2,963	2,963
In the second year	—	2,963	2,963	2,963
In the third year	—	2,963	2,963	2,963
In the fourth year	—	2,963	—	—
	<u>—</u>	<u>2,963</u>	<u>2,963</u>	<u>2,963</u>

41. DETAILS OF SUBSIDIARIES

The Company

	As at December 31,			As at June 30,
	2020	2021	2022	2023
	RMB’000	RMB’000	RMB’000	RMB’000
Unlisted shares, at cost	—	—	1,306,543	1,306,543
Deemed capital contributions (<i>note</i>).	—	—	27,487	57,686
	<u>—</u>	<u>—</u>	<u>1,334,030</u>	<u>1,364,229</u>

Note: The amounts represent the equity-settled share-based compensation in respect of the respective share options granted by the Company to certain subsidiaries’ employees for their services rendered to the respective subsidiaries under the Company’s [REDACTED] Share Option Scheme as disclosed in Note 38. Since the subsidiaries have no obligation to reimburse such expense to the Company, the amounts are treated as deemed capital contribution by the Company to the subsidiaries and regarded as the Company’s cost of investments in subsidiaries.

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The direct and indirect interests in the following subsidiaries held by the Company during the years ended December 31, 2020, 2021 and 2022, six months ended June 30, 2023, and as of the date of this report are as follows:

Name of subsidiaries	Place of incorporation/ operation, date of incorporation	Authorized share/ registered capital	Paid up capital	Attributable equity interests held by the Company				Date of this report	Principal activities
				As at December 31,					
				2020	2021	2022	2023		
WuXi XDC Hong Kong Limited (note i)	Hong Kong June 7, 2021	HK\$1	—	N/A	100%	100%	100% [100%]	International sales contracting service	
無錫藥明合聯生物技術有限公司 (曾用名：無錫藥明偶聯生物技術有限公司) (WuXi XDC Co., Ltd.) [#] (note ii and v)	The PRC March 13, 2018	US\$200,000,000	US\$162,500,000	100%	100%	100%	100% [100%]	Biologics discovery, development and manufacturing service	
上海藥明合聯生物技術有限公司 (曾用名：上海藥明全聯生物技術有限公司) (WuXi XDC (Shanghai) Co., Ltd.) [#] (note iii and iv)	The PRC March 31, 2021	RMB30,000,000	RMB30,000,000	N/A	100%	100%	100% [100%]	Biologics discovery, development and manufacturing service	
常州藥明合聯生物技術有限公司 (WuXi XDC (Changzhou) Co., Ltd.) [#] (note iii and iv)	The PRC July 2, 2021	RMB300,000,000	RMB300,000,000	N/A	100%	100%	100% [100%]	Biologics discovery, development and manufacturing service	
WuXi XDC Singapore Private Limited (note v)	Singapore November 16, 2022	US\$5,000,000	—	N/A	N/A	100%	100% [100%]	Biologics manufacturing service	

English name is for identification purpose only.

None of the subsidiaries had issued any debt securities at the end of the period.

Notes:

- (i) The statutory financial statements of the entity for the years ended December 31, 2021 and 2022 prepared under IFRSs were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP.
- (ii) The statutory financial statements of the entity for the years ended December 31, 2020, 2021 and 2022 prepared under China Accounting Standards (“CASs”) were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP.

APPENDIX I

ACCOUNTANTS’ REPORT

- (iii) The statutory financial statements of the entity for the years ended December 31, 2021 and 2022 prepared under CASs were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP.
- (iv) This Company is a wholly-domestic owned enterprise.
- (v) This Company is a wholly-foreign owned enterprise.

42. RESERVES MOVEMENT OF THE COMPANY

The movement of the reserves of the Company are as follows:

	Share premium	Equity-settled share-based compensation reserve	Retained earnings (Accumulated losses)	Total reserves
	RMB’000	RMB’000	RMB’000	RMB’000
As at January 1, 2020 and December 31, 2020	—	—	—	—
Total comprehensive expense for the year . .	—	—	(640)	(640)
As at December 31, 2021	—	—	(640)	(640)
Total comprehensive income for the year . .	—	—	20,237	20,237
Issue of shares (<i>Note 32</i>)	1,285,143	—	—	1,285,143
Recognition of equity-settled share-based compensation	—	27,750	—	27,750
As at December 31, 2022	1,285,143	27,750	19,597	1,332,490
Total comprehensive expense for the period	—	—	(7,648)	(7,648)
Recognition of equity-settled share-based compensation	—	30,145	—	30,145
As at June 30, 2023	<u>1,285,143</u>	<u>57,895</u>	<u>11,949</u>	<u>1,354,987</u>

43. SUBSEQUENT FINANCIAL STATEMENTS

[No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to December 31, 2022 and up to the date of this report.]

44. SUBSEQUENT EVENTS

The Group has undergone the following significant events after the end of the reporting period:

- (i) On July 6, 2023 and August 24, 2023, 34,819,569 and 82,189,726 share options were granted under the 2023 [REDACTED] Share Option Scheme with a vesting period of five years, respectively.

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