Zai Lab Limited

再鼎醫藥有限公司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 9688)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

Zai Lab Limited, together with its subsidiaries (collectively, the "**Company**" or "**we**" or "**us**"), hereby announces the consolidated results of the Company for the year ended December 31, 2023 (the "**Reporting Period**"), together with the comparative figures for the year ended December 31, 2022, which have been prepared in accordance with generally accepted accounting principles in the United States (the "**U.S. GAAP**") and reviewed by the audit committee (the "**Audit Committee**") of the board of directors (the "**Board**" or "**Directors**") of the Company.

FINANCIAL HIGHLIGHTS

Year ended December 31, 2023 vs. year ended December 31, 2022 (in U.S. dollars ("$"))

- Product revenue increased by $54.0 million, or 25%, to $266.7 million, primarily driven by increased sales volumes, the launch of VYVGART® (efgartigimod alfa injection), and decreased negative effects from the COVID-19 pandemic, partially offset by an increase in sales rebates to distributors and the effects on hospital and physician practices from the recent industry-wide anti-corruption enforcement efforts in China in the second half of 2023.
- Research and development expenses decreased by $20.5 million, or 7%, to $265.9 million, primarily due to decreased upfront and milestone payments for our license and collaboration agreements, partially offset by an increase in personnel compensation and related costs.
- Selling, general and administrative expenses increased by $22.6 million, or 9%, to $281.6 million, primarily due to higher general selling expenses related to commercial operations to support the launch of VYVGART, partially offset by a decrease in professional services fees.
- Net loss decreased by $108.7 million, or 25%, to $334.6 million, primarily due to product revenue growing faster than net operating expenses, increased interest income, and decreased foreign currency loss.
- Basic and diluted loss per share was $0.35, a decrease of 24% from $0.46.

Independent auditor's report

to the shareholders of Zai Lab Limited

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Zai Lab Limited ("the Company") and its subsidiaries (collectively, "the Group") set out on pages 6 to 48, which comprise the consolidated balance sheet as at December 31, 2023, the consolidated statement of operations, the consolidated statement of comprehensive loss, the consolidated statement of shareholders' equity and the consolidated statement of cash flows for the year then ended and notes, comprising accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with U.S. generally accepted accounting principles and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for* the *audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Evaluation of accrued preclinical and clinical trial expenses	
Refer to note 11 to the consolidated financial statements and the accounting policies on page 19.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Company's research and development expenses include costs associated with payments to contract research organizations ("CROs") and contract manufacturing organizations ("CMOs") for various preclinical and clinical trial activities. Expenses related to preclinical and clinical trial activities are accrued based on the Company's estimates of the actual services performed by the CROs and CMOs. As disclosed in the consolidated financial statements, as of December 31, 2023, the Company recorded $ 113.0 million in accounts payable, which included the accrued preclinical and clinical trial expenses. We identified the evaluation of accrued preclinical and clinical trial expenses as a key audit matter. Specifically, evaluating the estimate of services performed for certain research and development activities at year-end required subjective judgment.	Our audit procedures to evaluate the accrued preclinical and clinical trial expenses included the following: • evaluating the design and testing the operating effectiveness of certain internal controls related to accrued preclinical and clinical trial expenses. This included controls related to the estimation of the services performed by the CROs and CMOs during the period that are included in accounts payable at the end of each reporting period; • on a sample basis, examining contracts, purchase orders, invoices, and third-party confirmations and comparing them to the Company's estimation of services performed by the CROs and CMOs; and • examining certain invoices received and/or payments made after year-end and evaluating whether they were associated with services received prior to that date and whether they were included in the Company's estimate of costs incurred at year-end.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with U.S. generally accepted accounting principles and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Frankie C.Y. Lai.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
March 28, 2024

CONSOLIDATED BALANCE SHEETS

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

	Notes	December 31, 2023	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents	3	790,151	1,008,470
Short-term investments	5	16,300	—
Accounts receivable (net of allowance for credit loss of $17 and $11 as of December 31, 2023 and 2022, respectively)	6	59,199	39,963
Notes receivable		6,134	8,608
Inventories, net	7	44,827	31,621
Prepayments and other current assets		22,995	35,674
Total current assets		939,606	1,124,336
Restricted cash, non-current	4	1,113	803
Long-term investments	8	9,220	6,431
Prepayments for equipment		111	1,396
Property and equipment, net	9	53,734	57,863
Operating lease right-of-use assets	10	14,844	19,512
Land use rights, net		3,069	6,892
Intangible assets, net		13,389	1,511
Long-term deposits		1,209	1,396
Total assets		**1,036,295**	**1,220,140**
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	11	112,991	65,974
Current operating lease liabilities	10	7,104	7,050
Other current liabilities	14	82,972	66,818
Total current liabilities		203,067	139,842
Deferred income		28,738	21,360
Non-current operating lease liabilities	10	8,047	13,343
Other non-current liabilities		325	—
Total liabilities		**240,177**	**174,545**
Commitments and contingencies (Note 22)			
Shareholders' equity			
Ordinary shares (par value of $0.000006 per share; 5,000,000,000 shares authorized, 977,151,270 and 962,455,850 shares issued as of December 31, 2023 and 2022, respectively; 972,239,070 and 960,219,570 shares issued and outstanding as of December 31, 2023 and 2022, respectively)		6	6
Additional paid-in capital		2,975,302	2,893,120
Accumulated deficit		(2,195,980)	(1,861,360)
Accumulated other comprehensive income		37,626	25,685
Treasury stock (at cost, 4,912,200 and 2,236,280 shares as of December 31, 2023 and 2022, respectively)		(20,836)	(11,856)
Total shareholders' equity		**796,118**	**1,045,595**
Total liabilities and shareholders' equity		**1,036,295**	**1,220,140**

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Notes	Year Ended December 31, 2023	2022
Revenues			
Product revenue, net	12	266,719	212,672
Collaboration revenue		—	2,368
Total revenues		266,719	215,040
Expenses			
Cost of sales		(95,816)	(74,018)
Research and development		(265,868)	(286,408)
Selling, general and administrative		(281,608)	(258,971)
Gain on sale of intellectual property		10,000	—
Loss from operations		(366,573)	(404,357)
Interest income		39,797	14,582
Foreign currency loss		(14,850)	(56,403)
Other income, net	19	7,006	3,113
Loss before income tax and share of loss from equity method investment		(334,620)	(443,065)
Income tax expense	13	—	—
Share of loss from equity method investment		—	(221)
Net loss		(334,620)	(443,286)
Loss per share — basic and diluted	15	(0.35)	(0.46)
Weighted-average shares used in calculating net loss per ordinary share — basic and diluted		966,394,130	958,067,140

Note: All the numbers of ordinary shares and per share data in these consolidated financial statements have been retrospectively adjusted, where applicable, as a result of the Share Subdivision that became effective on March 30, 2022. Refer to Note 2(a) for additional information.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands of $)

	Year Ended December 31,	
	2023	**2022**
Net loss	(334,620)	(443,286)
Other comprehensive income, net of tax of nil:		
Foreign currency translation adjustments	11,941	49,330
Comprehensive loss	**(322,679)**	**(393,956)**

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

	Ordinary shares		Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury Stock		Total
	Number of Shares	Amount				Number of Shares	Amount	
Balance at December 31, 2021	955,363,980	6	2,825,948	(1,418,074)	(23,645)	(382,930)	(4,279)	1,379,956
Issuance of ordinary shares upon vesting of restricted shares	1,940,680	0	0	—	—	—	—	—
Exercise of share options	5,151,190	0	5,870	—	—	—	—	5,870
Receipt of shares netted to satisfy tax withholding obligations related to share-based compensation	—	—	—	—	—	(1,853,350)	(7,577)	(7,577)
Share-based compensation	—	—	61,302	—	—	—	—	61,302
Net loss	—	—	—	(443,286)	—	—	—	(443,286)
Foreign currency translation	—	—	—	—	49,330	—	—	49,330
Balance at December 31, 2022	962,455,850	6	2,893,120	(1,861,360)	25,685	(2,236,280)	(11,856)	1,045,595
Issuance of ordinary shares upon vesting of restricted shares	8,178,500	0	0	—	—	—	—	—
Exercise of share options	6,516,920	0	2,548	—	—	—	—	2,548
Receipt of shares netted to satisfy tax withholding obligations related to share-based compensation	—	—	—	—	—	(2,675,920)	(8,980)	(8,980)
Share-based compensation	—	—	79,634	—	—	—	—	79,634
Net loss	—	—	—	(334,620)	—	—	—	(334,620)
Foreign currency translation	—	—	—	—	11,941	—	—	11,941
Balance at December 31, 2023	977,151,270	6	2,975,302	(2,195,980)	37,626	(4,912,200)	(20,836)	796,118

The accompanying notes are an integral part of these consolidated financial statements. "0" in above table means less than 1,000 dollars.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of $)

	Year Ended December 31,	
	2023	**2022**
Cash flows from operating activities		
Net loss	(334,620)	(443,286)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for credit loss	6	1
Inventory write-down	973	477
Depreciation and amortization expenses	9,029	8,227
Impairment of property and equipment	57	—
Amortization of deferred income	(3,383)	(2,602)
Share-based compensation	79,634	61,302
Share of loss from equity method investment	—	221
(Gain) loss from fair value changes of equity investment with readily determinable fair value	(2,789)	8,952
Loss on disposal of property and equipment	159	560
Gain on disposal of land use right	(408)	—
Noncash lease expenses	8,708	8,350
Gain from sale of intellectual property	(10,000)	—
Foreign currency remeasurement loss	14,850	56,403
Changes in operating assets and liabilities:		
Accounts receivable	(20,040)	4,330
Notes receivable	2,352	(1,976)
Inventories	(14,907)	(15,382)
Prepayments and other current assets	12,246	(19,258)
Long-term deposits	187	(527)
Value added tax recoverable	—	22,781
Accounts payable	36,803	(53,773)
Other current liabilities	19,810	7,392
Operating lease liabilities	(8,351)	(8,455)
Deferred income	11,181	(1,379)
Other non-current liabilities	325	—
Net cash used in operating activities	(198,178)	(367,642)
Cash flows from investing activities		
Purchase of short-term investments	(134,000)	(260,274)
Proceeds from maturity of short-term investment	117,700	705,274
Purchase of property and equipment	(7,212)	(24,585)
Proceeds from the sale of property and equipment	122	—
Acquisition of intangible assets	(1,279)	(399)
Proceeds from sale of intellectual property	10,000	—
Proceeds from disposal of land use right	3,893	—
Net cash (used in) provided by investing activities	(10,776)	420,016

Cash flows from financing activities		
Proceeds from exercises of stock options	2,369	5,870
Taxes paid related to settlement of equity awards	(8,802)	(7,600)
Net cash used in financing activities	(6,433)	(1,730)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(2,622)	(6,274)
Net (decrease) increase in cash, cash equivalents and restricted cash	(218,009)	44,370
Cash, cash equivalents and restricted cash — beginning of the year	1,009,273	964,903
Cash, cash equivalents and restricted cash — end of the year	791,264	1,009,273
Supplemental disclosure on non-cash investing and financing activities		
Payables for purchase of property and equipment	2,474	5,269
Payables for acquisition of intangible assets	11,516	163
Payables for treasury stock	—	2
Right-of-use asset acquired under operating leases	3,668	14,801
Receivables for disposal of property and equipment	—	64
Supplemental disclosure of cash flow information		
Cash and cash equivalents	790,151	1,008,470
Restricted cash, non-current	1,113	803
Total cash and cash equivalents and restricted cash	791,264	1,009,273

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Principal Activities

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

The Company's principal operations and geographic markets are in Greater China (mainland China, Hong Kong, Macau, and Taiwan, collectively). The Company has a substantial presence in Greater China and the United States.

As of December 31, 2023, Zai Lab Limited had the following 16 subsidiaries:

Name of Company	Place of Incorporation	Particulars of Issued/Registered Capital	Percentage of Ownership	Principal Activities and Place of Operation
Zai Lab (Hong Kong) Limited	Hong Kong	Hong Kong dollar ("**HK$**")1	100%	Operating company for business development and R&D activities and commercialization of innovative medicines and device; Hong Kong
ZLIP Holding Limited	Cayman Islands	$1	100%	Investment holding
ZL Capital Limited	British Virgin Islands	$1	100%	Investment holding
ZL China Holding Two Limited	Hong Kong	HK$1	100%	Investment holding
Zai Anti Infectives Limited	Cayman Islands	$1	100%	Investment holding
Zai Auto Immune Limited	Cayman Islands	$1	100%	Investment holding
Zai Lab (Shanghai) Co., Ltd.	Mainland China*	$466,500,000	100%	Development and commercialization of innovative medicines and devices; mainland China
Zai Lab (AUST) Pty. Ltd.	Australia	Australian dollar ("**A$**")100	100%	Clinical trial activities; Australia
Zai Lab (Suzhou) Co., Ltd.	Mainland China*	Chinese Renminbi ("**RMB**") 166,500,000	100%	Development and commercialization of innovative medicines; mainland China
Zai Biopharmaceutical (Suzhou) Co., Ltd.	Mainland China*	$15,000,000	100%	Development and commercialization of innovative medicines; mainland China
Zai Lab (US) LLC	United States	$1	100%	Operating company for business development, R&D activities and certain business activities, including legal, compliance and communication functions of the Company; United States
Zai Lab International Trading (Shanghai) Co., Ltd.	Mainland China*	RMB1,000,000	100%	Commercialization of innovative medicines and devices; mainland China
Zai Auto Immune (Hong Kong) Limited	Hong Kong	HK$100	100%	Operating company for business development and R&D activities; Hong Kong
Zai Anti Infectives (Hong Kong) Limited	Hong Kong	HK$100	100%	No substantial business activities
Zai Lab (Taiwan) Limited	Taiwan	Taiwan dollar ("**TWD**") 1,000,000	100%	Commercialization of innovative medicines and devices; Taiwan
Zai Lab Trading (Suzhou) Co., Ltd.	Mainland China*	RMB10,000,000#	100%	Commercialization of innovative medicines and devices; mainland China

* Limited liability company established in mainland China.

Out of RMB10,000,000 registered capital, RMB1,000,000 is paid up.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("**U.S. GAAP**"). Significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below.

Effective as of March 30, 2022, the Company subdivided each of its issued and unissued ordinary shares into ten ordinary shares (the "**Share Subdivision**"). Following the Share Subdivision, the Company's authorized share capital became $30,000 divided into 5,000,000,000 shares with a par value of $0.000006 per share. The numbers of issued and unissued ordinary shares and per share data as disclosed elsewhere in these consolidated financial statements and notes thereto are presented on a basis after taking into account the effects of the Share Subdivision and have been retrospectively adjusted, where applicable. In connection with the Share Subdivision, the conversion ratio of its ADSs to ordinary shares changed from one ADS to one ordinary share to a new ratio of one ADS to ten ordinary shares (the "**ADS Ratio Change**"). The Share Subdivision and ADS Ratio Change did not result in any change to the number of outstanding ADSs of the Company.

In 2022, the Company began to separately present foreign currency (loss) gain on the consolidated statements of operations. This amount was previously included in other income, net. Additionally, the Company began to provide a breakdown of other income, net in Note 19. The Company also began to separately present the amount of foreign currency remeasurement loss (gain) on the consolidated statements of cash flows. This amount was previously included in changes in other current liabilities. This change did not have any impact on net cash used in operating activities. Corresponding amounts in the prior periods of the consolidated financial statements have been presented to conform to the current period presentation.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of Zai Lab Limited and its subsidiaries, which are wholly owned. All intercompany transactions and balances are eliminated upon consolidation.

(c) Use of Estimates

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

(d) Foreign Currency Translation

The functional currency of Zai Lab Limited, Zai Lab (Hong Kong) Limited, Zai Lab (US) LLC, and Zai Auto Immune (Hong Kong) Limited are the U.S. dollar ("**$**"). The Company's subsidiaries in

mainland China determined their functional currency to be the Chinese Renminbi ("**RMB**"). The Company's subsidiary in Australia determined its functional currency to be the Australian dollar ("**A$**"). The Company's subsidiary in Taiwan determined its functional currency to be the Taiwan dollar ("**TWD**"). The determination of the respective functional currency is based on the criteria of Accounting Standard Codification ("**ASC**") 830, *Foreign Currency Matters*. The Company uses the U.S. dollar as its reporting currency.

Assets and liabilities are translated from each entity's functional currency to the reporting currency at the exchange rate on the balance sheet date. Equity amounts are translated at historical exchange rates. Revenues, expenses, gains, and losses are translated using the average rate for the period presented. The resulted foreign currency translation adjustments are recorded as a component of other comprehensive loss in the consolidated statements of comprehensive loss, and the accumulated foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in the consolidated statements of shareholders' equity.

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date.

Non-monetary assets and liabilities are translated into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of operations.

(e) Cash, Cash Equivalents, and Restricted Cash

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of cash on hand, demand deposits, and highly liquid investments with maturity of less than three months and are stated at cost, which approximates fair value.

Restricted Cash

Restricted cash mainly consists of bank deposits held as collateral for issuances of letters of credit.

(f) Short-Term Investments

Short-term investments are time deposits with original maturities between three months and one year. Short-term investments are stated at cost, which approximates fair value. Interest earned is included in interest income.

(g) Accounts Receivable

The Company's accounts receivable arise from product sales and represent amounts due from its customers. From January 1, 2020, the Company adopted the ASU 2016-13, *Credit Losses, Measurement of Credit Losses on Financial* Instruments. Accounts receivable are recorded at the amounts net of allowances for credit losses. The allowance for credit losses reflects the Company's current estimate of credit losses expected to be incurred over the life of the receivables. The Company considers various factors in establishing, monitoring, and adjusting its allowance for credit

losses including the aging of receivables and aging trends, customer creditworthiness, and specific exposures related to particular customers. The Company also monitors other risk factors and forward-looking information, such as country-specific risks and economic factors that may affect a debtor's ability to pay in establishing and adjusting its allowance for credit losses. Accounts receivable are written off when deemed uncollectible.

(h) Notes Receivable

Notes receivable are equal to contractual amounts owed from signed, secured promissory notes issued from customers to the Company. The Company considers the notes receivable to be fully collectible. Accordingly, no allowance for credit loss has been established as of December 31, 2023 and 2022.

(i) Inventories

Inventories are stated at the lower of cost or net realizable value, with cost determined on a weighted average basis. The Company periodically reviews the composition of inventory and shelf life of inventory to identify obsolete, slow-moving, or otherwise non-saleable items. The Company will record a write-down to its net realizable value in cost of sales in the period that the decline in value is first identified.

(j) Prepayments for Equipment

The prepayments for equipment purchase are recorded in long-term prepayments considering the prepayments are all related to property and equipment.

(k) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

	Useful life
Office equipment	3 years
Electronic equipment	1.25-3 years
Vehicles	4 years
Laboratory equipment	5 years
Manufacturing equipment	10 years
Leasehold improvements	lesser of useful life or lease term

Construction in progress represents property and equipment under construction and pending installation and is stated at cost less impairment losses, if any.

(l) Leases

The Company leases facilities for its offices, research and development center, and manufacturing facilities in mainland China, Hong Kong, Taiwan and the United States. On January 1, 2019, the Company adopted the ASC 842, *Leases* ("**ASC 842**"), using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application and not restating historical periods before the adoption date.

The Company assessed whether an arrangement contains a lease at inception. The Company's leases are all classified as operating leases with fixed lease payments, or minimum payments, as contractually stated in the lease agreements. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

Operating leases are included in operating lease right-of-use assets and operating lease liabilities in the consolidated balance sheets. Operating lease liabilities that become due within one year of the balance sheet date are classified as current operating lease liabilities. Operating lease expense is recognized on a straight-line basis over the lease term.

At the commencement date of a lease, the Company recognizes a lease liability for future fixed lease payments and a right-of-use ("**ROU**") asset representing the right to use the underlying asset during the lease term. The lease liability is initially measured as the present value of the future fixed lease payments that will be made over the lease term. The lease term includes periods for which the Company is reasonably certain that the renewal options will be exercised and the termination options will not be exercised. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as the Company's leases generally do not provide an implicit rate. The incremental borrowing rate is reevaluated upon a lease modification. The Company considered information available at the adoption date of ASC 842 to determine the incremental borrowing rate for leases in existence as of this date.

The ROU asset is measured at the amount of the lease liability with adjustments, if applicable, for lease prepayments made prior to or at lease commencement, initial direct costs incurred by the Company, and lease incentives. Under ASC 842, land use rights agreements are also considered to be operating lease contracts.

The Company elected to apply each of the practical expedients described in ASC 842 which allow companies (i) not to reassess prior conclusions on whether any expired or existing contracts are or contain a lease, lease classification, and initial direct costs upon adoption of ASC 842, (ii) combine lease and non-lease components for all underlying assets groups, and (iii) not recognize ROU assets or lease liabilities for short term leases. A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

(m) Land Use Rights

All land in mainland China is subject to government or collective ownership. Land use rights can be purchased for a specified period of time. The purchase price of land use rights represents the operating lease prepayments under ASC 842 and is recorded as land use rights on the consolidated balance sheet, which is amortized over the remaining lease term.

The Company acquired land use rights in 2019 for a term of 30 years from the local Bureau of Land and Resources in Suzhou for the purpose of constructing and operating a research center and biologics manufacturing facility in Suzhou. In 2023, the Company returned a portion of the land use rights and received cash in an amount equal to the respective portion of the original acquisition cost.

(n) Long-Term Deposits

Long-term deposits represent amounts paid in connection with the Company's long-term lease agreements.

(o) Intangible Assets

Intangible assets mainly consist of capitalized sales-based milestone fees and externally purchased software. Sales-based milestone fees are capitalized based on contract terms upon achievement of the sales levels and are amortized over the estimated remaining useful life of the related product, which is generally based on expected patent life, the contractual period of the underlying license agreement, and expected commercial benefits of the products. Externally purchased software are amortized over three to five years on a straight-line basis. As of December 31, 2023, the intangible assets, net consist of $11.2 million of capitalized sales-based milestone fees and $2.2 million of software. As of December 31, 2022, the intangible assets, net consist of $1.5 million of software. Amortization expenses for 2023 and 2022 were $0.7 million and $0.5 million, respectively. Amortization expenses of the Company's intangible assets are expected to be approximately $3.1 million, $2.9 million, $2.7 million, $2.5 million, and $2.3 million, and nil for 2024, 2025, 2026, 2027, 2028, and thereafter, respectively.

(p) Impairment of Long-Lived Assets

The Company evaluates long-lived assets, which includes intangible assets, tangible assets, and ROU assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the related asset group to its future undiscounted cash flows. The Company measures the amount of impairment, if any, based on the difference between the carrying value and the estimated fair value of the impaired asset group.

(q) Fair Value Measurements

The Company applies ASC topic 820, *Fair Value Measurements and Disclosures* ("**ASC 820**"), in measuring fair value. ASC 820 defines fair value, establishes a framework for measuring fair value, and requires disclosures to be provided on fair value measurement.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (i) market approach; (ii) income approach; and (iii) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Equity investments with readily determinable fair value are measured using level 1 inputs and were $9.2 million and $6.4 million as of December 31, 2023 and 2022, respectively. The unrealized gains and losses from fair value changes are recognized in other income, net in the consolidated statements of operations.

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

(r) Revenue Recognition

In 2018, the Company adopted ASC Topic 606, *Revenue from Contracts with Customers* ("**ASC 606**"). Under ASC 606, the Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration expected to be received in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price, including variable consideration, if any; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration to which it is entitled in exchange for the goods or services it transfers to the customer. Once a contract is determined to be within the scope of ASC 606 at contract inception, the Company reviews the contract to determine which performance obligations it must deliver and which of these performance obligations are distinct. The Company recognizes as revenue the amount of the transaction price that is allocated to each performance obligation when that performance obligation is satisfied or as it is satisfied.

The Company's revenue is mainly from product sales. The Company recognizes revenue from product sales when the Company has satisfied the performance obligation by transferring control of the product to the customers. Control of the product generally transfers to the customers when the delivery is made and when title and risk of loss transfers to the consumers. Cost of sales mainly consists of the acquisition cost of products, the manufacturing cost of products, royalty fees, and amortization of sales-based milestone payments.

The Company has applied the practical expedients under ASC 606 with regard to assessment of the financing component and concluded that there is no significant financing component given that the period between delivery of goods and payment is generally one year or less. The Company's product revenues were mainly generated from the sale of ZEJULA® (niraparib), OPTUNE® (Tumor Treating Fields), QINLOCK® (ripretinib), NUZYRA® (omadacycline), and VYVGART to customers.

In mainland China, the Company sells these products to distributors, who ultimately sell the products to health care providers. Based on the nature of the arrangements, the performance obligations are satisfied upon the delivery of the products to distributors. Rebates are offered to distributors, consistent with pharmaceutical industry practices. The estimated amount of unpaid or unbilled rebates, if any, are recorded as a reduction of revenue. Estimated rebates are determined based on contracted rates and sales volumes and, to a lesser extent, distributor inventories. The Company regularly reviews the information related to these estimates and adjusts the amount accordingly.

In Hong Kong, the Company sells the products to customers, which are typically healthcare providers such as oncology centers. The Company utilizes a third party for warehousing services. Based on the nature of the arrangements, the Company has determined that it is a principal in the transaction since the Company is primarily responsible for fulfilling the promise to provide the products to the customers, maintains inventory risk until delivery to the customers, and has latitude in establishing the price. Revenue is recognized at the amount to which the Company is expected to be entitled in exchange for the sale of the products, which is the sales price agreed with the customers. Consideration paid to the third party is recognized in operating expenses.

The Company did not recognize any contract assets or contract liabilities as of December 31, 2023 and 2022.

(s) Collaborative Arrangements

The Company analyzes its collaboration arrangements to assess whether such arrangements involve joint operating activities performed by parties that are both active participants in the activities and exposed to significant risks and rewards dependent on the commercial success of such activities and therefore within the scope of ASC Topic 808, *Collaborative Arrangements* ("**ASC 808**"). This assessment is performed throughout the life of the arrangement based on changes in the responsibilities of all parties in the arrangement.

For collaboration arrangements within the scope of ASC 808 that contain multiple elements, the Company first determines which elements of the collaboration are deemed to be within the scope of ASC 808 and which elements of the collaboration are more reflective of a vendor-customer relationship and therefore within the scope of ASC 606. For elements of collaboration arrangements that are accounted for pursuant to ASC 808, an appropriate recognition method is determined and applied consistently.

(t) Research and Development Expenses

Elements of research and development expenses primarily include (i) payroll and other related costs of personnel engaged in research and development activities; (ii) in-licensed patent rights fees for exclusive development rights for products granted to the Company; (iii) costs related to pre-clinical testing of the Company's technologies under development and clinical trials such as payments to contract research organizations ("**CROs**") and contract manufacturing organizations ("**CMOs**"), investigators, and clinical trial sites that conduct its clinical studies; (iv) costs to develop the product candidates, including raw materials and supplies, product testing, depreciation, and facility-related expenses; and (v) other research and development expenses. Research and development expenses are charged to expense as incurred when they have no alternative future uses. Liabilities related to third-party research and development expenses are primarily included in accounts payable on the consolidated balance sheet.

The Company has acquired rights to develop and commercialize certain product candidates. Upfront payments that relate to the acquisition of a new product compound, as well as pre-commercial milestone payments, are immediately expensed as acquired in-process research and development in the period in which they are incurred, provided that the new product compound does not also include processes or activities that would constitute a "business" as defined under U.S. GAAP. Milestone payments made to third parties subsequent to regulatory approval which meet the capitalization criteria would be capitalized as intangible assets and amortized over the estimated remaining useful life of the related product, which is generally based on expected patent life, the contractual period of the underlying license agreement, and expected commercial benefits of the products.

(u) Deferred Income

Deferred income mainly consists of deferred income from government grants and upfront payments received from Huizheng (Shanghai) Pharmaceutical Technology Co., Ltd. ("**Huizheng**"), a subsidiary of Hanhui Pharmaceutical Co., Ltd. ("**Hanhui**").

Government grants consist of cash subsidies received by the Company's subsidiaries in mainland China from local governments. Grants received as incentives for conducting business in certain local districts with no performance obligation or other restriction as to the use are recognized as other income when cash is received. Grants received with government specified performance obligations are recognized as other income when all obligations have been fulfilled. If such obligations are not satisfied, the Company may be required to refund the subsidy. The grant received before the fulfillment of specified performance obligations is recorded in deferred income. The Company had $2.1 million and $0.9 million of government grants in deferred income as of December 31, 2023 and 2022, respectively.

In March 2020, the Company entered into an exclusive promotion agreement with Huizheng so that the Company could leverage Hanhui's infrastructure for sales of NUZYRA in mainland China. In exchange for exclusive promotion rights in mainland China, Huizheng agreed to pay the Company non-creditable upfront payments of RMB230.0 million, of which RMB90.0 million was paid in 2020, RMB70.0 million in 2022, and RMB70.0 million in 2023. The Company is amortizing the upfront payments through the end of the contract term. The Company had $26.7 million and $20.5 million in deferred income related to the upfront payments as of December 31, 2023 and 2022, respectively.

(v) Comprehensive Loss

Comprehensive loss is defined as the changes in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. For each of the periods presented, the Company's comprehensive loss includes net loss and foreign currency translation adjustments, which are presented in the consolidated statements of comprehensive loss.

(w) Share-Based Compensation

The Company grants share options and non-vested restricted shares to eligible employees, non-employees, and directors and accounts for these share-based awards in accordance with ASC 718, *Compensation-Stock* Compensation ("**ASC 718**").

The Company estimates the fair value of stock options using the Black-Scholes option-pricing model. The grant-date fair value of non-vested restricted shares is the market value of the underlying stock on the award's grant date.

The Company has elected to use the straight-line method to recognize compensation expenses for share awards with graded vesting based on service conditions, provided that the minimum amount of cumulative compensation expense recognized is not less than the portion of the award vested to date. For share-based awards with service conditions only, the Company recognizes expenses (i) immediately at grant date if no vesting conditions are required; or (ii) using a straight-line method over the requisite service period, which is the vesting period, if vesting conditions are required. For share-based awards containing performance conditions, the Company recognizes expenses based on the estimated number of performance-based awards expected to vest using the graded vesting attribution method. The Company accounts for the effect of forfeitures as they occur.

(x) Income Taxes

Income tax expense includes (i) deferred tax expense, which generally represents the net change in the deferred tax asset or liability balance during the year plus any change in valuation allowances; (ii) current tax expense, which represents the amount of tax currently payable to or receivable from a taxing authority; and (iii) non-current tax expense, which represents the increases and decreases in amounts related to uncertain tax positions from prior periods and not settled with cash or other tax attributes.

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial statement and income tax bases of assets and liabilities, which are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company evaluates its uncertain tax positions using the provisions of ASC 740, *Income Taxes*, which requires that realization of an uncertain income tax position be recognized in the financial statements. The benefit to be recorded in the financial statements is the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. It is the Company's policy to recognize interest and penalties related to unrecognized tax benefits, if any, as a component of income tax expense. No unrecognized tax benefits and related interest and penalties were recorded in the periods presented.

(y) Loss Per Share

Basic loss per ordinary share is computed by dividing net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. The Company had stock options and non-vested restricted shares, which could potentially dilute basic loss per share in the future. To calculate the number of shares for diluted loss per share, the effect of the stock options and non-vested restricted shares is computed using the treasury stock method. The computation of diluted loss per share does not assume exercise or conversion of securities that would have an anti-dilutive effect.

(z) Segment Information

In accordance with ASC 280, *Segment Reporting*, the Company's chief operating decision maker, the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Company as a whole, and therefore, the Company has only one operating and reportable segment.

(aa) Concentration of Risks

Concentration of Customers

One customer accounted for 10% or more of revenue, with $59.4 million and $52.5 million in 2023 and 2022, respectively.

Concentration of Suppliers

The Company did not have any suppliers accounted for 10% or more of research and development expenses and inventory purchases in 2023 or 2022.

Concentration of Credit Risk

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

The carrying amounts of cash and cash equivalents and short-term investments represent the maximum amount of loss due to credit risk. As of December 31, 2023 and 2022, all of the Company's cash and cash equivalents and short-term investments were held by major financial institutions located in mainland China and international financial institutions outside of mainland China which management believes are of high credit quality and continually monitors the credit worthiness of these financial institutions.

Accounts receivable are typically unsecured and are derived from product sales. The Company manages credit risk of accounts receivable through ongoing monitoring of outstanding balances and limits the amount of credit extended based upon payment history and credit worthiness. Historically, the Company has collected receivables from customers within the credit terms with no significant credit losses incurred. One customer accounted for 10% or more of accounts receivable, with $7.8 million and $9.3 million as of December 31, 2023 and 2022, respectively.

Certain accounts receivable balances may be settled in the form of notes receivable. As of December 31, 2023, notes receivable represented bank acceptance promissory notes that are non-interest bearing and due within six months. Notes receivable were used to collect the receivables based on an administrative convenience, given these notes are readily convertible to be known amounts of cash. In accordance with the sales agreements, whether to use cash or bank acceptance promissory notes to settle the receivables is at the Company's discretion, and this selection does not impact the agreed contractual purchase prices.

Foreign Currency Risk

RMB is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Company included aggregated amounts denominated in RMB of $25.1 million and $45.5 million as of December 31, 2023 and 2022, respectively, representing 3% and 5% of cash and cash equivalents as of December 31, 2023 and 2022, respectively.

(ab) Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board issued ASU No. 2023-09, *Improvements to Income Tax Disclosures* (Topic 740). This ASU requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as additional information on income taxes paid. This ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Early adoption is permitted. This ASU will result in the required additional disclosures being included in the consolidated financial statements, once adopted. The Company is

currently evaluating the impact of this ASU and expects to adopt it for the year ending December 31, 2025.

The Company has not adopted any new accounting standards in 2023 that have a material impact on the Consolidated Financial Statements.

3. Cash and Cash Equivalents

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

	December 31,	
	2023	**2022**
Cash	789,051	1,007,423
Cash equivalents (i)	1,100	1,047
	790,151	1,008,470
Denominated in:		
US$	762,436	957,824
RMB (ii)	25,093	45,486
Hong Kong dollar ("**HK$**")	1,974	4,378
Australian dollar ("**A$**")	587	598
Taiwan dollar ("**TW$**")	61	184
	790,151	1,008,470

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

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

4. Restricted Cash, Non-Current

The Company's restricted cash balance was $1.1 million and $0.8 million as of December 31, 2023 and 2022, respectively, and consisted of long-term bank deposits held as collateral for issuance of letters of credit. These deposits will be released when the related letters of credit are settled by the Company.

5. Short-Term Investments

Short-term investments are primarily comprised of time deposits with original maturities between three months and one year. The short-term investments balance was $16.3 million and nil as of December 31, 2023 and 2022, respectively. No allowance for credit loss was recorded as of December 31, 2023.

6. Accounts Receivable

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

	December 31,	
	2023	2022
Accounts receivable, gross	59,216	39,974
Allowance for credit loss	(17)	(11)
Accounts receivable, net	59,199	39,963

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

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

	December 31,	
	2023	2022
Within 3 months	59,199	39,953
3 months to 6 months	—	4
6 months to 1 year	—	6
Total	59,199	39,963

7. Inventories, Net

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

	December 31,	
	2023	2022
Finished goods	22,702	12,156
Raw materials	17,655	19,029
Work in progress	4,470	436
Inventories, net	44,827	31,621

The Company writes down inventory for any excess or obsolete inventories or when the Company believes that the net realizable value of inventories is less than the carrying value. The Company recorded write-downs of inventory in cost of sales of $1.0 million and $0.5 million in 2023 and 2022, respectively.

8. Long-Term Investments

In July 2021, the Company made an equity investment in MacroGenics Inc. ("**MacroGenics**"), a biopharmaceutical company focused on developing and commercializing innovative monoclonal antibody-based therapeutics for the treatment of cancer, in a private placement with total contributions of $30.0 million and obtained 958,467 newly issued common shares of MacroGenics at $31.30 per share. The Company recorded this investment at acquisition cost and subsequently measured it at fair value, with the changes in fair value recognized in other income, net in the consolidated statements of

operations. The equity investments with readily determinable fair value are measured using level 1 inputs and were $9.2 million and $6.4 million as of December 31, 2023 and 2022, respectively. The Company recognized a fair value gain of $2.8 million in 2023, and fair value losses of $9.0 million in 2022.

9. Property and Equipment, Net

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

	December 31,	
	2023	2022
Office equipment	1,047	977
Electronic equipment	9,161	7,416
Vehicle	199	202
Laboratory equipment	20,140	18,726
Manufacturing equipment	17,680	17,055
Leasehold improvements	11,371	11,300
Construction in progress	24,272	24,251
	83,870	79,927
Less: accumulated depreciation	(30,136)	(22,064)
Property and equipment, net	53,734	57,863

Depreciation expense was $8.4 million and $7.7 million in 2023 and 2022, respectively.

10. Leases

The Company leases facilities for its offices, research and development center, and manufacturing facilities in mainland China, Hong Kong, Taiwan, and the United States. Lease terms vary based on the nature of operations and market dynamics; however, all leased facilities are classified as operating leases with remaining lease terms between one and five years.

The following table presents operating lease costs ($ in thousands). Total lease expense related to short-term leases was insignificant for those periods presented.

	Year Ended December 31,	
	2023	2022
Operating fixed lease cost	8,691	8,774

The following table presents operating cash flows related to leases ($ in thousands):

	Year Ended December 31,	
	2023	2022
Cash paid for amounts included in measurement of lease liabilities	9,317	8,084
Non-cash operating lease liabilities arising from obtaining operating right-of-use assets	3,668	14,801

The maturities of lease liabilities in accordance with ASC Topic 842, *Leases* in each of the next five years and thereafter were as follows ($ in thousands):

	Year Ended December 31, 2023
2024	7,444
2025	5,143
2026	1,811
2027	822
2028	391
Thereafter	—
Total lease payments	15,611
Less: imputed interest	(460)
Present value of minimum operating lease payments	15,151

Weighted-average remaining lease terms and discount rates were as follows:

	December 31,	
	2023	2022
Weighted-average remaining lease term	2.5 years	2.6 years
Weighted-average discount rate	3.0 %	3.4 %

11. Accounts Payable

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

	December 31,	
	2023	2022
Within 3 months	112,328	65,249
3 months to 6 months	497	132
6 months to 1 year	2	577
Over 1 year	164	16
Total	112,991	65,974

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

12. Revenue

Product Revenue

The Company's product revenue is derived from the sales of its commercial products primarily in mainland China. The table below presents the Company's net product revenue ($ in thousands):

	Year Ended December 31,	
	2023	2022
Product revenue — gross	298,911	234,009
Less: Rebates and sales returns	(32,192)	(21,337)
Product revenue — net	266,719	212,672

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

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

	Year Ended December 31,	
	2023	2022
ZEJULA	168,843	145,194
OPTUNE	46,969	47,321
QINLOCK	19,240	14,957
NUZYRA	21,656	5,200
VYVGART	10,011	—
Product revenue — net	266,719	212,672

13. Income Tax

Cayman Islands

Zai Lab Limited, ZLIP Holding Limited, Zai Auto Immune Limited, and Zai Anti Infectives Limited are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, Zai Lab Limited, ZLIP Holding Limited, Zai Auto Immune Limited, and Zai Anti Infectives Limited are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

British Virgin Islands Taxation

ZL Capital Limited is incorporated in the British Virgin Islands. Under the current laws of the British Virgin Islands, ZL Capital Limited is not subject to income tax.

Australia

Zai Lab (AUST) Pty. Ltd. is incorporated in Australia and is subject to corporate income tax at a rate of 30%. Zai Lab (AUST) Pty. Ltd. had no taxable income for the periods presented; therefore, no provision for income taxes is required.

United States

Zai Lab (US) LLC is incorporated in the United States and is subject to U.S. federal corporate income tax at a rate of 21%. Zai Lab (US) LLC is also subject to state income tax in Delaware. Zai Lab (US) LLC had no taxable income for the periods presented; therefore, no provision for income taxes is required.

Taiwan

Zai Lab (Taiwan) Limited is incorporated in Taiwan and is subject to corporate income tax at a rate of 20%. Zai Lab (Taiwan) Limited had no taxable income for the periods presented; therefore, no provision for income taxes is required.

Hong Kong

Zai Lab (Hong Kong) Limited, ZL China Holding Two Limited, Zai Auto Immune (Hong Kong) Limited, and Zai Anti Infectives (Hong Kong) Limited are incorporated in Hong Kong. Companies registered in Hong Kong are subject to Hong Kong profits tax on the taxable income as reported in their respective statutory financial statements adjusted in accordance with relevant Hong Kong tax laws. Under the two-tiered profits tax rates regime in Hong Kong, the first HK$2.0 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2.0 million will be taxed at 16.5%. In 2023 and 2022, Zai Lab (Hong Kong) Limited, ZL China Holding Two Limited, Zai Auto Immune (Hong Kong) Limited, and Zai Anti Infectives (Hong Kong) Limited did not make any provisions for Hong Kong profit tax as there were no assessable profits derived from or earned in Hong Kong for any of the periods presented. Under the Hong Kong tax law, Zai Lab (Hong Kong) Limited, ZL China Holding Two Limited, Zai Auto Immune (Hong Kong) Limited, and Zai Anti Infectives (Hong Kong) Limited are exempted from income tax on its foreign-derived income, and there are no withholding taxes in Hong Kong on remittance of dividends.

People's Republic of China

Under EIT Law, the statutory income tax rate is 25%, and the EIT rate will be reduced to 15% for state-encouraged High and New Technology Enterprises ("**HNTE**"). Zai Lab (Shanghai) Co., Ltd., first obtained a HNTE certificate in 2018 and began to enjoy the preferential tax rate of 15% from 2018 to 2020 and further extended the certificate in 2021 effective for 2021 to 2023. Zai Lab International Trading (Shanghai) Co., Ltd., Zai Lab (Suzhou) Co., Ltd., Zai Biopharmaceutical (Suzhou) Co., Ltd., and Zai Lab Trading (Suzhou) Co., Ltd. are subject to the statutory rate of 25%.

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

The following table presents loss (income) before income taxes ($ in thousands):

	Year Ended December 31,	
	2023	2022
Cayman Islands	(16,792)	19,454
British Virgin Islands	—	2
Mainland China	253,274	290,056
Hong Kong	4,483	53,425
United States	92,869	79,620
Australia	14	(260)
Taiwan	772	989
	334,620	443,286

Reconciliations of the differences between the Chinese statutory income tax rate and the Company's effective income tax rate were as follows:

	Year Ended December 31,	
	2023	2022
Statutory income tax rate	25%	25%
Tax-exempted income	0.19%	—%
Share-based compensation	(2.08%)	(1.40%)
Research and development super deduction	7.11%	2.51%
Non-deductible expenses	(2.83%)	(2.31%)
Prior year tax filing adjustment	1.32%	6.33%
Effect of different tax rate of subsidiary operation in other jurisdictions	0.02%	(2.85%)
Preferential tax rate	(7.12%)	(6.26%)
Expiration of deductible qualified donation	2.28%	—%
Changes in valuation allowance	(23.89%)	(21.02%)
Effective income tax rate	—%	—%

The following table presents the principal components of deferred tax assets and liabilities ($ in thousands):

	Year Ended December 31,	
	2023	2022
Deferred tax assets:		
Depreciation of property and equipment, net	131	98
Research and experimental capitalization	30,429	22,476
Share-based compensation	3,422	1,787
Accrued expenses	707	1,800
Government grants	467	189
Deferred revenue	4,354	3,378
Qualified donation	22,992	12,947
Lease liability	2,967	3,738
Net operating loss carry forwards	295,313	241,397
Less: valuation allowance	(357,956)	(284,072)
Total Deferred tax assets	2,826	3,738
Deferred tax liabilities:		
Right-of-use assets	(2,826)	(3,738)
Deferred tax assets, net	—	—

ASC 740, *Income Taxes*, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. The Company's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carry forward periods provided for in the tax law. In assessing the need for any additional valuation allowance for 2023, the Company considered all available evidence both positive and negative, including potential for prudent and feasible tax planning strategies, recent losses, and forecasts of future profitability. As of December 31, 2023 and 2022, the Company determined that the deferred tax assets on temporary differences and net operating loss carry forwards related to certain subsidiaries will not be realized, and as such it has fully provided the corresponding valuation allowance.

The following table presents that movement of the valuation allowance on deferred tax assets ($ in thousands):

	2023	2022
Balance as of January 1,	(284,072)	(189,684)
Additions	(73,884)	(94,388)
Balance as of December 31,	(357,956)	(284,072)

As of December 31, 2023 and 2022, the Company had net operating loss carry forwards of $1,804.9 million and $1,483.2 million, respectively. As of December 31, 2023, net operating loss carryforwards related to the Company's subsidiaries in mainland China, Hong Kong, Taiwan, the United States, and Australia and were $1,492.0 million, $51.0 million, $2.1 million, $256.0 million, and $3.8 million, respectively. Net operating loss carryforwards in mainland China and Taiwan expire through 2033 and those in Hong Kong, the United States, and Australia do not expire.

Uncertainties exist with respect to how the current income tax law in mainland China applies to the Company's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of mainland China will be considered residents for Chinese income tax purposes if the place of effective management or control is within mainland China. The implementation rules to the EIT Law provide that non-resident legal entities will be considered Chinese residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, and properties occurs within mainland China. Despite the present uncertainties resulting from the limited Chinese tax guidance on the issue, the Company does not believe that the legal entities organized outside of mainland China within the Company should be treated as residents for EIT Law purposes. If the Chinese tax authorities subsequently determine that the Company and its subsidiaries registered outside of mainland China should be deemed resident enterprises, the Company and its subsidiaries registered outside of mainland China will be subject to Chinese income taxes, at a rate of 25%. The Company is not subject to any other uncertain tax position.

According to the PRC Tax Administration and Collection Law, the statute of limitation is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitation is extended to five years under special circumstances where the underpayment of taxes is more than RMB0.1 million. In the case of transfer pricing issues, the statute of limitation is 10 years. There is no statute of limitation in the case of tax evasion. The income tax returns of the Company's PRC subsidiary for the years from 2014 to 2023 are open to examination by the PRC tax authorities.

For Hong Kong income tax purposes, the statute of limitations is six years after the relevant year of assessment. This can be extended to 10 years in the case of fraud of willful evasion of taxes. There are no provisions that govern the time limit for tax collection.

For U.S. federal income tax purposes, the statute of limitations is generally 3 years after the due date of the return, or 3 years after the date the return was actually filed, whichever is later. The statute of limitations does not apply to fraud or tax evasion. Also, the statute of limitations is indefinite if no tax return is filed. For state income tax purposes, the statute of limitations is generally 4 years from the return filing date or due date in states including California, Kentucky, and New Jersey, subject to certain exceptions (e.g., fraud, failure to file).

14. Other Current Liabilities

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

	December 31,	
	2023	**2022**
Accrued payroll	33,711	31,689
Accrued professional service fee	7,520	4,080
Payables for purchase of property and equipment	2,474	5,269
Accrued rebate to distributors	16,926	8,443
Tax payables	16,988	13,283
Other (i)	5,353	4,054
Total	82,972	66,818

(i) Other mainly includes accrued travel, business-related expenses, and other payables to employees.

15. Loss Per Share

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

	Year Ended December 31,	
	2023	2022
Numerator:		
Net loss attributable to ordinary shareholders	(334,620)	(443,286)
Denominator:		
Weighted average number of ordinary shares - basic and diluted	966,394,130	958,067,140
Net loss per share-basic and diluted	(0.35)	(0.46)

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

	December 31,	
	2023	2022
Share options	104,584,050	91,181,420
Non-vested restricted shares	31,279,600	33,433,890

16. Related Party Transactions

The Company incurred research and development expenses for product research and development services provided by MEDx (Suzhou) Translational Medicine Co., Ltd ("**MEDx**"), over which an immediate family member of its Chief Executive Officer and Chairperson of the Board held significant influence. The Company incurred development expenses with MEDx of insignificant amount in 2023, and $0.4 million in 2022, respectively.

17. Share-Based Compensation

The Company has adopted equity incentive plans, pursuant to which the Company grants share options, SARs, restricted and unrestricted shares, and share units, performance awards, and other awards that are convertible into or otherwise based on ordinary shares to employees and directors of the Company as well as to certain advisors and service providers. In March 2015, the Board of Directors of the Company approved such an Equity Incentive Plan (the "**2015 Plan**"). In August 2017, in connection with the completion of the Company's initial public offering on Nasdaq (the "**IPO**"), the Board of Directors approved the 2017 Equity Incentive Plan (the "**2017 Plan**"). No new equity-based awards would be granted under the 2015 Plan subsequent to the IPO; new equity-based awards would be granted under the 2017 Plan.

The Company adopted the 2022 Equity Incentive Plan (the "**2022 Plan**"), which became effective in June 2022 following required approvals from the Company's shareholders and Board of Directors. No new equity-based awards will be made under the 2017 Plan as of the effective date of the 2022 Plan. The initial aggregate number of shares available for issuance under the 2022 Plan was 97,908,743 ordinary shares.

The share options granted under the equity incentive plans described above have a contractual term of ten years. Share options granted since April 2023 generally vest ratably over a four-year period, and share options granted prior to April 2023 generally vest ratably over a five-year period, with 25% or 20% of the awards vesting on each anniversary of the grant date, respectively, subject to continued employment/service with the Company on the vesting date. The restricted shares granted generally vest ratably over a specified period on the anniversary of the grant date, subject to continued employment/service with the Company on the vesting date. The shares underlying restricted share grants represent shares not yet vested until they have met related consideration or vesting requirements, which are generally continued employment/service to the Company or satisfaction of specified performance conditions. The restricted shares will be released from the restrictions once they vest. Upon termination of the award holders' service with the Company for any reason, any shares that are outstanding and not yet vested will be immediately forfeited unless otherwise set forth in an agreement between the Company and the award holder.

Before November 2023, upon each settlement date of the share awards, shares were generally withheld to cover the required withholding tax, which was based on the value of a share on the settlement date as determined by the closing price of the ADSs on the trading day of the applicable settlement date. The remaining shares after the withholding were delivered to the recipient. The amount remitted to the tax authorities for employee tax obligations was reflected as a financing activity on the consolidated statements of cash flows. These shares withheld by the Company as a result of the net settlement were accounted for as treasury stock and considered issued but not outstanding.

Stock Option Activity

The following table presents a summary of option activity and related information in 2023:

	Number of options	Weighted average exercise price ($)	Weighted average remaining contractual term (years)	Aggregate intrinsic value ($ in thousands)
Outstanding at December 31, 2022	91,181,420	3.05	5.89	115,969
Granted	24,102,740	3.36		
Exercised	(6,516,920)	0.39		
Forfeited	(4,183,190)	6.68		
Outstanding at December 31, 2023	104,584,050	3.14	5.97	83,424
Vested and exercisable as of December 31, 2023	58,695,320	2.11	3.93	83,266

The aggregate intrinsic value of stock options exercised in 2023 and 2022 were $20.3 million and $14.3 million, respectively.

Stock Option Valuation Assumptions

The following table presents the assumptions used to estimate the fair values of the share options granted:

	2023	2022
Risk-free rate of return	3.5%-4.7%	1.4%-4.0%
Expected term (in years)	6, 6.25, or 6.5	6.5
Estimated volatility rate	70%	65%
Expected dividend rate	0%	0%

Options granted are measured based on grant-date fair value using the Black-Scholes option pricing model. The weighted-average grant-date fair value per share for options granted in 2023 and 2022 were $2.21 and $2.74 per share, respectively.

Non-Vested Restricted Shares Activity

The following table summarized the Company's non-vested restricted share activity in 2023:

	Numbers of non-vested restricted shares	Weighted average remaining contractual term (years)	Aggregate intrinsic value ($ in thousands)
Non-vested as of December 31, 2022	33,433,890	3.55	102,642
Granted	9,001,740		
Vested	(8,178,500)		
Forfeited	(2,977,530)		
Non-vested as of December 31, 2023	31,279,600	2.75	85,487

The grant-date fair value of restricted shares is the fair value of the underlying stock on the award's grant date. The weighted-average grant-date fair value per share for restricted shares granted in 2023 and 2022 were $3.18 and $3.71 per share, respectively.

Stock-Based Compensation Expenses

The following table presents the share-based compensation expense which has been reported in the Company's consolidated statements of operations ($ in thousands):

	Year Ended December 31,	
	2023	2022
Selling, general and administrative	48,017	38,118
Research and development	31,617	23,184
Total	79,634	61,302

As of December 31, 2023, there was unrecognized share-based compensation expense related to unvested share options and unvested restricted shares of $104.2 million and $104.1 million, respectively, which the Company expects to recognize over a weighted-average period of 3.05 years and 2.75 years, respectively.

18. License and Collaboration Agreements

The Company may enter into collaboration agreements with third parties to license intellectual property. These agreements may require the Company to make upfront payments and payments related to certain future development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates on annual sales of the licensed products in the licensed territory. These agreements generally remain in effect, unless earlier terminated, until the expiration of the last-to-expire royalty term for the last licensed product. The royalty terms generally continue until the latest of: (i) the expiration of the last-to-expire valid claim with respect to licensed patent rights; (ii) the expiration of market or regulatory exclusivity; or (iii) or a specified period of time, generally around ten years, after the date of the first commercial sale of the licensed product. These agreements also contain customary provisions for termination by either party, including in the event of a material breach by the other party that remains uncured; by the Company for convenience upon a specified notice period; for certain bankruptcy, insolvency, or other similar events; and by its partners upon challenge of their licensed patent rights.

Payments under these agreements generally become due and payable upon the achievement of such milestones or sales. These commitments are not recorded as liabilities on the consolidated balance sheet because the achievement and timing of these milestones are not fixed and determinable. The following is a description of the Company's significant license and collaboration agreements as of December 31, 2023, including milestone fees incurred in 2023 and 2022.

Significant License and Collaboration Arrangements

License and Collaboration Agreement with GSK (Niraparib)

In September 2016, the Company entered into a collaboration, development, and license agreement with Tesaro, Inc., a company later acquired by GlaxoSmithKlein plc ("**GSK**"), pursuant to which the Company obtained an exclusive sublicense under certain patents and know-how of GSK to develop, manufacture, and commercialize GSK's proprietary PARP inhibitor, niraparib, for the diagnosis and prevention of any human diseases or conditions (other than prostate cancer) in mainland China, Hong Kong, and Macau.

The Company recorded development milestone fees into research and development expenses of $4.0 million in 2022. The Company recorded sales-based milestone fees of $12.0 million in 2023. The Company may be required to pay an additional aggregate amount of up to $16.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentages rates ranging from mid- to high-teens on annual net sales of the licensed products in the licensed territories.

License and Collaboration Agreement with NovoCure (Tumor Treating Fields)

In September 2018, the Company entered into a license and collaboration agreement with NovoCure Ltd. ("**NovoCure**"), pursuant to which it obtained an exclusive license under certain patents and know-how of NovoCure to develop and commercialize any Tumor Treating Fields treatment or delivery system, including the device branded as OPTUNE, in all human therapeutic and preventative uses in the field of oncology in Greater China.

The Company may be required to pay an additional aggregate amount of up to $68.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from low- to mid-teens on annual net sales of the licensed products in the licensed territory. The Company will purchase licensed products exclusively from NovoCure at NovoCure's fully burdened manufacturing cost.

License and Collaboration Agreement with Deciphera (Ripretinib)

In June 2019, the Company entered into a license agreement with Deciphera Pharmaceuticals, Inc. ("**Deciphera**"), pursuant to which it obtained an exclusive license under certain patents and know-how of Deciphera to develop and commercialize products containing ripretinib in the field of the prevention, prophylaxis, treatment, cure, or amelioration of any disease or medical condition in humans in Greater China. The Company will purchase licensed products exclusively from Deciphera.

The Company may be required to pay an additional aggregate amount of up to $173.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from low- to high-teens on annual net sales of the licensed products in the licensed territory.

License and Collaboration Agreement with Novo Holdings (Omadacycline)

In April 2017, the Company entered into a license and collaboration agreement with Paratek Bermuda Ltd. ("**Paratek**"), a subsidiary of Paratek Pharmaceuticals, Inc. (which was subsequently acquired by Gurnet Point Capital and Novo Holdings A/S), pursuant to which the Company obtained both an exclusive license under certain patents and know-how of Paratek and an exclusive sub-license under certain intellectual property that Paratek licensed from Tufts University to develop, manufacture, and commercialize products containing omadacycline as an active ingredient in the field of all human therapeutic and preventative uses other than biodefense in Greater China.

The Company may be required to pay an additional aggregate amount of up to $40.5 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentages rates ranging from low- to mid-teens on annual net sales of licensed products in the licensed territory.

Collaboration and License Agreement with argenx (Efgartigimod)

In January 2021, the Company entered into a collaboration and license agreement with argenx BV ("**argenx**") pursuant to which the Company obtained an exclusive license under certain patients and know-how of argenx to develop and commercialize products containing efgartigimod as an active ingredient in all human and animal uses for any preventative or therapeutic indications in Greater China. The Company will purchase licensed products exclusively from argenx.

Pursuant to the collaboration and license agreement, the Company and argenx entered into a share issuance agreement. The Company issued as an upfront payment to argenx of 5,681,820 ordinary shares of the Company. In determining the fair value of the ordinary shares at closing, the Company considered the closing price of the ordinary shares on the closing date and included a lack of marketability discount because the shares were subject to certain restrictions. The fair value of the shares on the closing date was determined to be $62.3 million in the aggregate.

The Company may be required to pay certain royalties at tiered percentages rates ranging from mid-teen to low-twenties on annual net sales of the licensed products in the licensed territory.

License and Collaboration Agreement with Amgen (Bemarituzumab)

In December 2017, the Company entered into a license and collaboration agreement with Five Prime Therapeutics, Inc. ("**Five Prime**") (a company later acquired by Amgen Inc. ("**Amgen**")), pursuant to which it obtained an exclusive license under certain patents and know-how of Five Prime to develop and commercialize products containing Five Prime's proprietary afucosylated FGFR2b antibody known as bemarituzumab (FPA144) as an active ingredient in the treatment or prevention of any disease or condition in humans in Greater China. The Company will purchase licensed products exclusively from Amgen.

The Company may be required to pay an additional aggregate amount of up to $37.0 million in development and regulatory milestones as well as certain royalties at tiered percentage rates ranging from high-teens to low twenties on annual net sales of the licensed product in the licensed territory.

Under the terms of the agreement, provided that the Company enrolls and treats a specified number of patients in the bemarituzumab FPA144-004 study in mainland China, the Company is eligible to receive a low single-digit percentage quarterly royalty, on a licensed product-by-licensed product basis on net sales of all licensed product outside of the licensed territory until the tenth (10th) anniversary of the first commercial sale of each such licensed product outside of the licensed territory.

License and Collaboration Agreement with Innoviva (SUL-DUR)

In April 2018, the Company entered into a license and collaboration agreement with Entasis Therapeutics Holdings Inc. ("**Entasis**"), a wholly owned subsidiary of Innoviva, Inc. ("**Innoviva**"), pursuant to which it obtained an exclusive license under certain patents and know-how of Entasis to develop and commercialize products containing Entasis's proprietary compounds known as durlobactam with Sulbactam (the combination, SUL-DUR) with the possibility of developing and commercializing a combination of such compounds with Imipenem in all human diagnostic, prophylactic, and therapeutic uses in Greater China, Korea, Vietnam, Thailand, Cambodia, Laos, Malaysia, Indonesia, the Philippines, Singapore, Australia, New Zealand, and Japan. The Company's rights to develop and commercialize the licensed products are limited to the lead product (Sulbactam) until such lead product receives initial FDA approval in the United States. The Company will purchase licensed products exclusively from Innoviva.

The Company recorded development milestone fees into research and development expenses of $3.0 million in 2023. The Company may be required to pay an additional aggregate amount of up to $88.6 million in development and sales-based milestones as well as certain royalties at tiered percentage rates ranging from high single digits to low-teens on annual net sales of the licensed products in the licensed territory. The Company is also responsible for a portion of the costs of the global pivotal Phase III ATTACK clinical trial of SUL-DUR outside of the licensed territory.

License Agreement with BMS (Repotrectinib)

In July 2020, the Company entered into an exclusive license agreement with Turning Point Therapeutics, Inc. (a company later required by BMS) pursuant to which the Company received an exclusive license to develop and commercialize products containing repotrectinib as an active ingredient in all human therapeutic indications in Greater China. The Company will purchase licensed products exclusively from BMS.

The Company recorded development milestone fees into research and development expenses of $5.0 million in 2023. The Company may be required to pay an additional aggregate amount of up to $141.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from mid- to high-teens on annual net sales of the licensed product in the licensed territory.

Collaboration and License Agreement with BMS (Adagrasib)

In May 2021, the Company entered into a collaboration and license agreement with Mirati Therapeutics, Inc. ("**Mirati**") (a company later acquired by BMS) pursuant to which the Company obtained the right to research, develop, manufacture, and exclusively commercialize adagrasib in all indications in Greater China, with Mirati retaining exclusive rights for the development, manufacturing, and commercialization of adagrasib outside of Greater China and certain co-commercialization, manufacture, and development rights in Greater China. The Company will purchase licensed products exclusively from BMS.

The Company recorded development milestone fees of $10.0 million in 2022. The Company may be required to pay an additional aggregate amount of up to $263.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from high-teens to low-twenties on annual net sales of the licensed product in the licensed territory.

License Agreement with BMS (Xanomeline-Trospium)

In November 2021, the Company entered into a license agreement with Karuna Therapeutics, Inc. (a company later acquired by BMS), pursuant to which the Company obtained an exclusive license to develop, manufacture, and commercialize xanomeline-trospium (KarXT) in Greater China.

The Company recorded development milestone fees of $10.0 million into research and development expenses in 2022. The Company may be required to pay an additional aggregate amount of up to $142.0 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates ranging from low- to high-teens on annual net sales of the licensed products in Greater China.

Collaboration and License Agreement with Pfizer (Tisotumab Vedotin)

In September 2022, the Company entered into a collaboration and license agreement with Seagen Inc. ("**Seagen**") (a company later acquired by Pfizer Inc. ("**Pfizer**"), pursuant to which the Company and Seagen agreed to collaboratively develop and commercialize tisotumab vedotin (TIVDAK). Under the agreement, the Company obtained an exclusive license to develop and commercialize TIVDAK in Greater China.

The Company recorded an upfront payment of $30.0 million into research and development expenses in 2022. The Company may be required to pay an additional aggregate amount of up to $263.0 million in development, regulatory, and sales-based milestone payments as well as certain royalties at tiered percentage rates ranging from mid-teens to low-twenties on annual net sales of the licensed products in Greater China.

Other License and Collaboration Arrangements That Are Not Individually Significant

The Company recorded an upfront payment of $10.0 million in 2023 for other license and collaboration agreements that are not individually significant. The Company may be required to pay an additional aggregate amount of up to $2,202.1 million in development, regulatory, and sales-based milestones as well as certain royalties at tiered percentage rates on annual net sales under such agreements.

19. Other Income, Net

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

	Year Ended December 31,	
	2023	2022
Government grants	2,433	11,471
Gain (Loss) on equity investments with readily determinable fair value	2,789	(8,952)
Other miscellaneous gain	1,784	594
Total	7,006	3,113

20. Restricted Net Assets

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

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

No appropriation to statutory reserves was made in 2023 and 2022 because the Chinese subsidiaries had substantial losses during such periods.

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

Foreign exchange and other regulation in mainland China may further restrict the Company's subsidiaries in mainland China from transferring out funds in the form of dividends, loans, and advances. As of December 31, 2023 and 2022, amounts restricted were the paid-in capital of the Company's subsidiaries in mainland China, which were $506.0 million and $456.0 million, respectively.

21. Employee Defined Contribution Plans

Full-time employees of the Company in mainland China participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund, and other welfare benefits are provided to employees. Chinese labor regulations require that the Company's subsidiaries in mainland China make contributions to the government for these benefits primarily based on certain percentages of the employees' salaries subject to certain caps and other government requirements. The total amounts for such employee benefits, which were expensed as incurred, were $25.8 million and $23.6 million in 2023 and 2022, respectively.

The Company's employees who are U.S. taxpayers and who meet certain age and service requirements are eligible to participate in a broad-based, defined contribution retirement plan which is qualified under Section 401 of the Internal Revenue Code (the "**401(k) plan**"). The Company makes a matching contribution equal to 100% in 2023 and 50% in 2022 of the first 5% of the employee's elective contributions under the plan, up to 5.0% of an employee's eligible compensation. Contributions made by the Company vest 100% upon contribution. The total amounts for such employee benefits, which were expensed as incurred, were $1.0 million and $0.5 million in 2023 and 2022, respectively.

The Company also provides required Mandatory Provident Fund contribution for its full-time employees located in Hong Kong and provides social benefits contribution for its full-time employees located in

Taiwan. The total amounts for these contributions, which were expensed as incurred, were $0.2 million and $0.2 million in 2023 and 2022, respectively.

There is no forfeiture of contribution related to any of the Company's employee defined contribution plans as described above.

22. Commitments and Contingencies

(a) *Purchase Commitments*

The Company's commitments related to purchase of property and equipment contracted but not yet reflected in the consolidated financial statements were $1.2 million as of December 31, 2023 and were expected to be incurred within one year.

(b) Legal Proceedings

The Company is not currently a party to any material legal proceedings. Each quarter, the Company evaluates whether there have been any developments in legal proceedings that would require an accrual. In accordance with the accounting guidance for contingencies, the Company will accrue for losses that are both probable and reasonably estimable. The Company will record any legal and other third-party costs related to its legal contingencies as incurred.

(c) Indemnifications

In the normal course of business, the Company enters into agreements that indemnify others for certain liabilities that may arise in connection with a transaction or certain events and activities. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, the Company may be required to reimburse the loss. These indemnifications are generally subject to various restrictions and limitations. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations.

23. Subsequent Events

In February 2024, the Company entered into certain debt arrangements with the Bank of China, SPD Bank, and Ningbo Bank to support its working capital needs in mainland China.

Bank of China Working Capital Loan Facility

On February 5, 2024, the Company entered into an uncommitted facility letter with the Bank of China (Hong Kong) Limited (the "**BOC HK**") pursuant to which the BOC HK will provide standby letters of credit for loans of up to $100.0 million for a term of one year. In connection with this agreement, the Company paid a one-time, non-refundable fee of $0.7 million. On February 6, 2024, upon the Company's application, the BOC HK provided a standby letter of credit in favor of the Bank of China Pudong Development Zone Branch (the "**BOC Pudong Branch**") for $50.0 million which are or may become payable by the Company's wholly-owned subsidiary, Zai Lab (Shanghai) Co., Ltd. ("**Zai Lab Shanghai**"), and Zai Lab Shanghai subsequently entered into a working capital loan contract with the BOC Pudong Branch on February 7, 2024 for a loan of RMB340.0 million (approximately $47.8 million). The working capital loan has a one-year term and is subject to a floating interest rate of approximately 2.95% initially, and is subject to adjustment every six months.

SPD Bank Working Capital Loan Facility

On February 6, 2024, the Company entered into a maximum-amount guarantee contract with the Shanghai Pudong Development Bank Co., Ltd. Zhangjiang Hi-Tech Park Sub-branch (the "**SPD Bank**") pursuant to which the Company will guarantee working capital loans of up to RMB300.0 million (approximately $42.0 million) from SPD Bank to Zai Lab Shanghai over a three-year period. To date, Zai Lab Shanghai has entered into working capital loan contracts with SPD Bank under this debt facility for an aggregate principal amount of RMB100.0 million (approximately $13.9 million). These working capital loans have one-year terms and are subject to a fixed interest rate of 3.45%.

Ningbo Bank Working Capital Loan Facility

On February 6, 2024, the Company's wholly-owned subsidiary, Zai Lab (Suzhou) Co., Ltd. ("**Zai Lab Suzhou**"), entered into a maximum credit contract with Bank of Ningbo Co., Ltd. Suzhou Sub-branch ("**Ningbo Bank**") as well as an Electronic Commercial Draft Discounting Master Agreement and Online Working Capital Loan Master Agreement (collectively, the "**Ningbo Bank Agreements**"). The Ningbo Bank Agreements permit Zai Lab Suzhou to utilize, including through discounting or working capital loan agreements and subject to the terms and conditions in related master agreements, up to RMB230.3 million (approximately $32.4 million), of which the Company is authorized to utilize up to RMB160.0 million (approximately $22.5 million). In connection with the arrangements described in the Ningbo Bank Agreements, Zai Lab Suzhou agreed to pledge interests in certain real property it owns in Suzhou. To date, Zai Lab Suzhou has not entered into any discounting arrangements or working capital loans under this Ningbo Bank working capital loan facility.

24. Director and Chief Executive Remuneration

Director and chief executive remuneration in 2023 and 2022 are disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HK Listing Rules**"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance, and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and were as follows ($ in thousands):

	Year Ended December 31,	
	2023	**2022**
Fees	590	473
Other emoluments:		
Salaries, allowances and benefits in kind	894	861
Performance related and discretionary bonuses	868	832
Share-based compensation expenses*	14,490	12,438
Pension scheme contributions	14	6
Total other emoluments	16,266	14,137
Total fees and other emoluments	16,856	14,610

** The fair value of share-based compensation, which has been recognized in the consolidated statements of operations over the vesting period, was determined on the date of grant in accordance with ASC 718. Refer to Note 17 for additional information.*

None of the Company's directors waived any emoluments in 2023 and 2022.

In 2023 and 2022, no emoluments were paid or payable by the Company to any of the Company's directors as an inducement to join or upon joining the Company or as compensation for loss of office.

The remuneration of each director in 2023 and 2022 were as follows ($ in thousands):

Year Ended December 31, 2023

	Fees	Salaries, allowances and benefits in kind	Performance related and discretionary bonuses	Share-based compensation expense	Pension scheme contributions	Total remuneration
Executive director and chief executive						
Dr. Samantha Du *Note (i)*	—	894	868	12,009	14	13,785
Independent non-executive directors						
Dr. Kai-Xian Chen	58	—	—	254	—	312
Dr. John Diekman	108	—	—	254	—	362
Ms. Nisa Leung	—	—	—	—	—	—
Mr. William Lis	67	—	—	254	—	321
Mr. Leon O. Moulder, Jr.	74	—	—	254	—	328
Mr. Peter Wirth	76	—	—	254	—	330
Mr. Scott W. Morrison	71	—	—	502	—	573
Dr. Richard Gaynor	65	—	—	502	—	567
Mr. Michel Vounatsos *Note (ii)*	71	—	—	207	—	278

Year Ended December 31, 2022

	Fees	Salaries, allowances and benefits in kind	Performance related and discretionary bonuses	Share-based compensation expense	Pension scheme contributions	Total remuneration
Executive director and chief executive						
Dr. Samantha Du *Note (i)*	—	861	832	9,438	6	11,137
Independent non-executive directors						
Dr. Kai-Xian Chen	56	—	—	500	—	556
Dr. John Diekman	88	—	—	500	—	588
Ms. Nisa Leung	—	—	—	—	—	—
Mr. William Lis	61	—	—	500	—	561
Mr. Leon O. Moulder, Jr.	68	—	—	500	—	568
Mr. Peter Wirth	75	—	—	500	—	575
Mr. Scott W. Morrison	64	—	—	250	—	314
Dr. Richard Gaynor	61	—	—	250	—	311

Notes:

(i) The Company compensates its independent non-executive directors pursuant to its non-employee director compensation policy. Dr. Samantha Du, as the Chief Executive Officer of the Company, is not compensated separately for her service to the Company as executive director.

(ii) Effective on January 7, 2023, the Board appointed Mr. Michel Vounatsos as an independent director of the Company.

25. Five Highest Paid Individuals

The five highest paid individuals in 2023 and 2022 included the following number of directors and chief executive (headcount):

	Year Ended December 31,	
	2023	2022
Director and chief executive[#]	1	1
Neither director nor chief executive	4	4
	5	5

 # Details of the remuneration of the Director and chief executive are set out in Note 24 above.

The aggregate of the emoluments in respect of the remaining individuals who are neither a director nor chief executive of the Company were as follows ($ in thousands):

	Year Ended December 31,	
	2023	2022
Salaries, allowances and benefits in kind	2,519	2,238
Performance related and discretionary bonuses	1,456	1,084
Share-based compensation expenses*	11,591	12,176
Pension scheme contributions	52	34
Inducement to join or upon joining the Company	750	—
	16,368	15,532

** The fair value of share-based compensation, which has been recognized in the consolidated statements of operations over the vesting period, was determined on the date of grant in accordance with ASC 718. Refer to Note 17 for additional information.*

The number of non-director and non-chief executive highest paid individuals whose remuneration fell within the following bands is as follows (headcount):

	2023	2022
HK$26,500,001 to HK$27,000,000	—	1
HK$28,000,001 to HK$28,500,000	1	—
HK$29,000,001 to HK$29,500,000	—	1
HK$29,500,001 to HK$30,000,000	—	1
HK$33,000,001 to HK$33,500,000	2	—
HK$33,500,001 to HK$34,000,000	1	—
HK$36,000,001 to HK$36,500,000	—	1
	4	4

Share-based compensation amount is included in the above disclosures. The fair value of share-based compensation, which has been recognized in the consolidated statements of operations over the vesting period, was determined on the date of grant in accordance with ASC 718. Refer to Note 17 for additional information.

In 2023 and 2022, no emoluments were paid or payable by the Company to any of the five highest paid individuals of the Company as compensation for loss of office.

26. Auditors' Remuneration

The fees paid or payable by the Company in relation to audit services in 2023 and 2022 were $3.4 million and $4.7 million, respectively. The auditor's remuneration paid or payable by the Company in relation to non-audit services in 2023 and 2022 were both nil.

27. Dividends

The Board did not recommend any final dividend in 2023 and 2022.

28. Reconciliation Between U.S. GAAP and International Financial Reporting Standards

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

Reconciliation of consolidated statements of operations ($ in thousands)

	Year Ended December 31, 2023		
	Amounts as reported under U.S. GAAP	**IFRS adjustments**	**Amounts as reported under IFRS**
Consolidated statements of operations		**Share-based compensation (note (i))**	
Expenses			
Research and development	(265,868)	(8,102)	(273,970)
Selling, general and administrative	(281,608)	(7,393)	(289,001)
Net loss	(334,620)	(15,495)	(350,115)

	Year Ended December 31, 2022		
	Amounts as reported under U.S. GAAP	IFRS adjustments	Amounts as reported under IFRS
Consolidated statements of operations		Share-based compensation (note (i))	
Expenses			
Research and development	(286,408)	(4,726)	(291,134)
Selling, general and administrative	(258,971)	(10,644)	(269,615)
Net loss	(443,286)	(15,370)	(458,656)

Reconciliation of consolidated balance sheets ($ in thousands)

	As of December 31, 2023		
	Amounts as reported under U.S. GAAP	**IFRS adjustments**	**Amounts as reported under IFRS**
Consolidated balance sheets		**Share-based compensation (note (i))**	
Additional paid-in capital	2,975,302	61,565	3,036,867
Accumulated deficit	(2,195,980)	(61,565)	(2,257,545)
Total shareholders' equity	796,118	—	796,118

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

Notes:

(i) Share-Based Compensation

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

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

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

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

A difference of $15.5 million and $15.4 million arose between the amount of share-based compensation (included in research and development expenses, and selling, general and administrative expenses) recognized under U.S. GAAP and IFRS in 2023 and 2022, respectively.

The accumulated differences on share-based compensation recognized in accumulated deficit and additional paid in capital under U.S. GAAP and IFRS were $61.6 million and $46.1 million as of December 31, 2023 and 2022, respectively.

(ii) Leases

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

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

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

29. Financial Information of Parent Company

PARENT COMPANY BALANCE SHEETS

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

	December 31,	
	2023	**2022**
Assets		
Current assets:		
Cash and cash equivalents	565,981	944,649
Prepayments and other current assets	7,423	10,203
Total current assets	573,404	954,852
Investment in subsidiaries	224,954	93,363
Total assets	798,358	1,048,215
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Other current liabilities	2,240	2,620
Total current liabilities	2,240	2,620
Total liabilities	2,240	2,620
Shareholders' equity		
Ordinary shares (par value of $0.000006 per share; 5,000,000,000 shares authorized, 977,151,270 and 962,455,850 shares issued as of December 31, 2023 and 2022, respectively; 972,239,070 and 960,219,570 shares issued and outstanding as of December 31, 2023 and 2022, respectively)	6	6
Additional paid-in capital	2,975,302	2,893,120
Accumulated deficit	(2,195,980)	(1,861,360)
Accumulated other comprehensive income	37,626	25,685
Treasury stock	(20,836)	(11,856)
Total shareholders' equity	796,118	1,045,595
Total liabilities and shareholders' equity	798,358	1,048,215

PARENT COMPANY STATEMENTS OF SHAREHOLDERS' EQUITY

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

	Ordinary shares				Accumulated other	Treasury Stock		
	Number of Shares	Amount	Additional paid in capital	Accumulated deficit	comprehensive income (loss)	Number of Shares	Amount	Total
Balance at December 31, 2021	955,363,980	6	2,825,948	(1,418,074)	(23,645)	(382,930)	(4,279)	1,379,956
Issuance of ordinary shares upon vesting of restricted shares	1,940,680	0	0	—	—	—	—	—
Exercise of share options	5,151,190	0	5,870	—	—	—	—	5,870
Receipt of shares netted to satisfy tax withholding obligations related to share-based compensation	—	—	—	—	—	(1,853,350)	(7,577)	(7,577)
Share-based compensation	—	—	61,302	—	—	—	—	61,302
Net loss	—	—	—	(443,286)	—	—	—	(443,286)
Foreign currency translation	—	—	—	—	49,330	—	—	49,330
Balance at December 31, 2022	962,455,850	6	2,893,120	(1,861,360)	25,685	(2,236,280)	(11,856)	1,045,595
Issuance of ordinary shares upon vesting of restricted shares	8,178,500	0	0	—	—	—	—	—
Exercise of share options	6,516,920	0	2,548	—	—	—	—	2,548
Receipt of shares netted to satisfy tax withholding obligations related to share-based compensation	—	—	—	—	—	(2,675,920)	(8,980)	(8,980)
Share-based compensation	—	—	79,634	—	—	—	—	79,634
Net loss	—	—	—	(334,620)	—	—	—	(334,620)
Foreign currency translation	—	—	—	—	11,941	—	—	11,941
Balance at December 31, 2023	977,151,270	6	2,975,302	(2,195,980)	37,626	(4,912,200)	(20,836)	796,118

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

The above statement of financial position of the Company has been prepared in accordance with U.S. GAAP, and in conformity with the disclosure requirements of the HK Listing Rules and the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

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

Since our inception, we have incurred net losses and negative cash flows from our operations. Substantially all of our losses have resulted from funding our research and development programs and selling, general and administrative costs associated with our operations. Developing high quality product candidates requires significant investment in our research and development activities over a prolonged period of time, and a core part of our strategy is to continue making sustained investments in this area. Our ability to generate profits and positive cash flow from operations over the next several years depends upon our ability to successfully market our commercial products and to successfully expand the indications for these products and develop and commercialize our other product candidates. As discussed further below, we expect to continue to incur substantial costs related to our research and development and commercialization activities.

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

Business Developments

In 2023, we were excited to launch a fifth commercial product, VYVGART, for generalized myasthenia gravis ("**gMG**") in China. We had a total product revenue of $266.7 million for 2023, representing 25% y-o-y growth. ZEJULA continued to lead PARP inhibitor sales for ovarian cancer in the hospital setting in mainland China, and we were able to increase patient access for QINLOCK and NUZYRA from their initial listings in China's National Reimbursement Drug List ("**NRDL**") listings and for OPTUNE as a result of increased supplemental insurance coverage in the private-pay market. In 2024, we expect our product revenues to continue to increase, such as from the new NRDL listings for VYVGART and the oral formulation of NUZYRA.

We also continued to make progress across our product pipeline. For example, China's National Medical Products Administration (the "**NMPA**") accepted new drug applications ("**NDAs**") for the subcutaneous formulation of efgartigimod ("**SC efgartigimod**") for the treatment of gMG, SUL-DUR for infections caused by *Acinetobacter baumannii*, including multi-drug resistant ("**MDR**") and carbapenem-resistant ("**CRAB**") strains, and repotrectinib for locally advanced or metastatic ROS1+ non-small cell lung cancer ("**NSCLC**"). We also had several positive data readouts during the year, including for TTFields therapy in 2L NSCLC, TIVDAK in 2L+ cervical cancer, SC efgartigimod in chronic inflammatory demyelinating polyneuropathy ("**CIDP**"), and KarXT in schizophrenia. We also advanced our global pipeline, initiating Phase I studies for our DLL3 antibody drug conjugate ("**ADC**") program and for ZL-1218, a humanized, IgG1 monoclonal antibody that binds to human CCR8. And, we increased our pipeline assets through our business development activities with our

strategic collaboration with MediLink for the license of a next generation DLL3 ADC program, which further deepened our lung cancer franchise.

We also continued to strengthen our business in 2023 through key new additions to our global leadership team. For example, we promoted Dr. Yajing Chen to Chief Financial Officer on July 7, 2023. Dr. Chen previously served as our Senior Vice President and Deputy Chief Financial Officer, helping to oversee finance, planning and forecasting, accounting, tax, treasury, and procurement matters since joining the Company in September 2021. She is a seasoned finance executive with more than 20 years of experience in the life sciences industry as well as a Ph.D. trained scientist. Dr. Chen succeeded Billy Cho, who stepped down from his role and left the Company on July 7, 2023. In addition, the Company appointed Dr. Robert Brown as Chief Medical Officer, Oncology in September 2023 to help accelerate the growth and development for our global oncology pipeline. Dr. Brown is an oncology drug development leader, with more than 16 years of translational, research, and clinical development expertise in the areas of oncology, immunology, and neurology. Dr. Brown reports to Dr. Rafael Amado, President, Head of Global Oncology Research and Development at the Company, and provides strategic leadership and support with respect to the clinical development of our oncology pipeline.

We further discuss below key factors affecting our results of operations, key components and primary drivers of changes in our results of operations in 2023, and our liquidity and capital resources.

Factors Affecting Our Results of Operations

Our Commercial Products

We generate product revenue through the sale of our commercial products in Greater China, net of any related sales returns and rebates to distributors. Our cost of sales mainly consists of the costs of manufacturing ZEJULA and NUZYRA, costs of purchasing OPTUNE, QINLOCK, and VYVGART from our collaboration partners, any royalty fees incurred as a result of sales of our commercial products under our license and collaboration agreements, and amortization of any sales-based milestone payments incurred under our license and collaboration agreements. We expect our revenue to increase in coming years as we continue to focus on increasing patient access to our existing commercial products, such as through NRDL listing or increased supplemental insurance coverage in the private-pay market. For example, in the first quarter of 2023, QINLOCK was added to the NRDL for fourth-line gastrointestinal stromal tumors ("**GIST**") and NUZYRA for the IV treatment of adult patients with community-acquired bacterial pneumonia ("**CABP**") and acute bacterial skin and skin structure infections ("**ABSSSI**"). In the first quarter of 2024, VYVGART (efgartigimod alfa injection) was added to the NRDL for gMG and NUZYRA for the oral treatment of adult patients with CABP and ABSSSI. We also expect revenue to increase in coming years as a result of our launch of additional commercial products, if and when we obtain required regulatory approvals. We expect our cost of sales to increase as the volume of products sold increases.

Research and Development Expenses

We believe our ability to successfully develop product candidates will be the primary factor affecting our long-term competitiveness, as well as our future growth and development. Developing high quality product candidates requires a significant investment of resources over a prolonged period of time. We are committed to advancing and expanding our pipeline of potential best-in-class and first-in-class products, such as through clinical and pre-clinical trials and business development activities. As a result, we expect to continue making significant investments in research and development, including internal discovery activities.

Elements of research and development expenditures primarily include:

- payroll and other related costs of personnel engaged in research and development activities;

- in-licensed patent rights fees of exclusive development rights of products granted to the Company;
- costs related to pre-clinical testing of the Company's technologies under development and clinical trials, such as payments to CROs and CMOs, investigators, and clinical trial sites that conduct our clinical studies;
- costs to develop the product candidates, including raw materials and supplies, product testing, depreciation, and facility-related expenses; and
- other research and development expenses.

Selling, General, and Administrative Expenses

Our selling, general, and administrative expenses consist primarily of personnel compensation and related costs, including share-based compensation for commercial and administrative personnel. Other selling, general, and administrative expenses include product distribution and promotion costs, and professional service fees for legal, intellectual property, consulting, auditing, and tax services as well as other direct and allocated expenses for rent and maintenance of facilities, insurance, and other supplies used in selling, general, and administrative activities. We expect these costs to continue to be significant to support sales of our commercial products and preparation to launch and subsequent sales of additional product candidates if and when approved.

Our Ability to Commercialize Our Product Candidates

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

License and Collaboration Arrangements

Our results of operations have been, and will continue to be, affected by our license and collaboration agreements. In accordance with these agreements, we may be required to make upfront payments and milestone payments upon the achievement of certain development, regulatory, and sales-based milestones for the relevant products as well as certain royalties at tiered percentage rates based on annual net sales of the licensed products in the licensed territories. We had $19.3 million and $53.4 million of research and development expenses in 2023 and 2022, respectively, related to upfront fees and development milestones. As of December 31, 2023, we may be required to pay development and regulatory milestone payments of up to an additional aggregate amount of $303.5 million for our current clinical programs and $673.2 million for other programs that are contingent on the progress of our product candidates prior to commercialization. As of December 31, 2023, we also may be required to pay sales-based milestone payments of up to an additional aggregate amount of $2,457.5 million as well as certain royalties at tiered percentage rates on annual net sales that are contingent on product performance. If these milestones or royalties do occur, we view related payments as favorable because such payments signify that the product or product candidate is achieving higher sales levels or advancing toward potential commercial launch.

Future and Outlook

Our mission is to be a leading global biopharmaceutical company focused on discovering, developing, and commercializing innovative therapies that improve the lives of patients.

To execute on that mission, we have developed a corporate strategy with the following three pillars to help us drive innovation in China and beyond:

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

- **Expanding Our Pipeline:** We seek to continue to expand and strengthen our differentiated product pipeline through synergistic regional and global collaborations and corporate development activities; and

- **Continuing Our Commercial Excellence and Execution:** We seek to continue delivering strong financial performance, including by increasing access to our existing commercial products and driving further increases in our efficiency and productivity as we continue preparations to launch multiple additional products or new indications for existing products in Greater China in the next 2-3 years. Through our efforts, we seek to achieve overall corporate profitability by the end of 2025.

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

FINANCIAL REVIEW

Results of Operations

In this section, we discuss key components of our results of operations in 2023 compared to 2022.

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

	Year Ended December 31,		Change	
	2023	2022	$	%
Revenues				
Product revenue, net	266,719	212,672	54,047	25 %
Collaboration revenue	—	2,368	(2,368)	(100)%
Total revenues	266,719	215,040	51,679	24 %
Expenses				
Cost of sales	(95,816)	(74,018)	(21,798)	29 %
Research and development	(265,868)	(286,408)	20,540	(7)%
Selling, general and administrative	(281,608)	(258,971)	(22,637)	9 %
Gain on sale of intellectual property	10,000	—	10,000	NM
Loss from operations	(366,573)	(404,357)	37,784	(9)%
Interest income	39,797	14,582	25,215	173 %
Foreign currency loss	(14,850)	(56,403)	41,553	(74)%
Other income, net	7,006	3,113	3,893	125 %
Loss before income tax and share of loss from equity method investment	(334,620)	(443,065)	108,445	(24)%
Income tax expense	—	—	—	— %
Share of loss from equity method investment	—	(221)	221	(100)%
Net loss	(334,620)	(443,286)	108,666	(25)%
Net loss attributable to ordinary shareholders	(334,620)	(443,286)	108,666	(25)%

NM - Not Meaningful

Product Revenue

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

	Year Ended December 31,		Change	
	2023	2022	$	%
Product revenue — gross	298,911	234,009	64,902	28 %
Less: Rebates and sales returns	(32,192)	(21,337)	(10,855)	51 %
Product revenue — net	266,719	212,672	54,047	25 %

Our product revenue is derived from the sales our commercial products primarily in mainland China, net of sales returns and rebates to distributors with respect to the sales of these products.

Our net product revenue increased by $54.0 million in 2023 primarily driven by increased sales volumes, the launch of VYVGART, and decreased negative effects from the COVID-19 pandemic, partially offset by an increase in sales rebates to distributors resulting from price reductions in connection with NRDL listings for certain products and the effects on hospital and physician practices from the recent industry-wide anti-corruption enforcement efforts in China in the second half of 2023. In terms of revenue growth by product, ZEJULA continued to be the leading PARP inhibitor in hospital sales for ovarian cancer in mainland China; increased sales for QINLOCK and NUZYRA were supported by their inclusion in the NRDL in the first quarter of 2023, and we commercially launched VYVGART for gMG in mainland China in September 2023. The effects of the COVID-19 pandemic had an adverse impact on our sales volumes for 2022 and the first quarter in 2023, due to decreased patient access to our products, such as through reduced hospital access during periods of lockdown or high infection rates, fewer newly diagnosed oncology patients, and delayed or interrupted treatments. The COVID-19 pandemic has not had a material adverse effect on our sales volume since the second quarter of 2023.

Sales rebates to distributors resulting from price reductions in connection with NRDL listings were $13.0 million for 2023, which increased from $5.3 million for 2022. These sales rebates in 2023 were driven by price reductions in connection with the inclusion of QINLOCK and NUZYRA (IV formulation) in the first quarter of 2023 and the inclusion of VYVGART and NUZYRA (oral formulation) and the renewal of ZEJULA as a maintenance treatment in the fourth quarter of 2023. These sales rebates in 2022 were driven by price reductions in connection with the inclusion of ZEJULA for certain treatments in December 2021 and price reductions for QINLOCK and NUZYRA in the second quarter of 2022 in connection with NRDL pricing negotiations.

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

	Year Ended December 31,		Change	
	2023	**2022**	**$**	**%**
ZEJULA	168,843	145,194	23,649	16 %
OPTUNE	46,969	47,321	(352)	(1)%
QINLOCK	19,240	14,957	4,283	29 %
NUZYRA	21,656	5,200	16,456	316 %
VYVGART	10,011	—	10,011	NM
Total	266,719	212,672	54,047	25 %

NM - Not Meaningful

Cost of Sales

Cost of sales increased by $21.8 million to $95.8 million in 2023 primarily due to increasing sales volumes.

Research and Development Expenses

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

	Year Ended December 31,		Change	
	2023	**2022**	**$**	**%**
Personnel compensation and related costs	115,749	105,561	10,188	10 %
Licensing fees	19,291	53,441	(34,150)	(64)%
CROs/CMOs/Investigators expenses	103,333	100,544	2,789	3 %
Other costs	27,495	26,862	633	2 %
Total	265,868	286,408	(20,540)	(7)%

Research and development expenses decreased by $20.5 million in 2023 primarily due to:

- a decrease of $34.2 million in licensing fees as a result of decreased upfront and milestone payments for our license and collaboration agreements; partially offset by
- an increase of $10.2 million in personnel compensation and related costs primarily due to grants of share options and restricted shares and the continued vesting of option and restricted share awards; and
- an increase of $2.8 million in CROs/CMOs/Investigators expenses related to newly initiated studies and progress of existing studies.

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

	Year Ended December 31,		Change	
	2023	**2022**	**$**	**%**
Clinical programs	112,158	155,792	(43,634)	(28)%
Pre-clinical programs	17,356	6,644	10,712	161 %
Unallocated research and development expenses	136,354	123,972	12,382	10 %
Total	265,868	286,408	(20,540)	(7)%

Research and development expenses attributable to clinical programs decreased by $43.6 million in 2023 primarily driven by a decrease in licensing fees of $45.2 million. Research and development expenses attributable to pre-clinical programs increased by $10.7 million in 2023, primarily driven by an increase in licensing fees related to an upfront payment for a new business collaboration.

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

Selling, General, and Administrative Expenses

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

	Year Ended December 31,		Change	
	2023	**2022**	**$**	**%**
Personnel compensation and related costs	173,389	162,045	11,344	7 %
Professional service fees	22,507	35,414	(12,907)	(36)%
Other costs	85,712	61,512	24,200	39 %
Total	281,608	258,971	22,637	9 %

Selling, general, and administrative expenses increased by $22.6 million in 2023 primarily due to:

- an increase of $24.2 million in other costs mainly related to selling, rental, and administrative expenses for commercial operations in mainland China, Hong Kong, and Taiwan; and
- an increase of $11.3 million in personnel compensation and related costs which was primarily driven by grants of share options and restricted shares and the continued vesting of option and restricted share awards; partially offset by
- a decrease of $12.9 million in professional service fees primarily related to legal and other administrative expenses.

Gain on Sale of Intellectual Property

We had a gain on sale of intellectual property of $10.0 million in connection with our sale of certain patent rights and related know-how to a third party in the second quarter of 2023. We had no such intellectual property sales resulting in gains or losses in 2022.

Interest Income

Interest income increased by $25.2 million to $39.8 million in 2023, mainly due to increased interest rates.

Foreign Currency Loss

Foreign currency loss decreased by $41.6 million to $14.9 million in 2023, due to the decrease in the remeasurement loss due to the lesser extent of U.S. dollar appreciation against the RMB.

Other Income, Net

Other income, net increased by $3.9 million to $7.0 million in 2023 primarily due to an increase of gain on equity investments of $11.7 million, driven by the shift from a loss of $9.0 million in 2022 to a gain of $2.8 million in 2023 for our investment in MacroGenics as a result of changes in its stock price, partially offset by a decrease of $9.0 million in government grant income.

Share of Loss from Equity Method Investment

Share of loss from equity method investment was $0.2 million in 2022 due to losses from our investment in JING Medicine Technology (Shanghai) Ltd., an entity that provides services for drug discovery and development, consultation, and transfer of pharmaceutical technology. There was no change on the equity method investment in 2023.

Income Tax Expense

Income tax expense was nil in both 2023 and 2022. For more information on income taxes, see *Note 13* to the consolidated financial statements.

Net Loss

Net loss was $334.6 million for 2023, or a loss per ordinary share attributable to common stockholders of $0.35, compared to a net loss of $443.3 million for 2022, or a loss per ordinary share of $0.46. The decrease in net loss was primarily due to product revenue growing faster than net operating expenses, increased interest income, and decreased foreign currency loss.

Discussion of Certain Key Balance Sheet Items

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

Cash, Cash Equivalents, and Restricted Cash

As of December 31, 2023, the Company's cash, cash equivalents, and restricted cash amounted to $791.3 million and primarily comprised of (1) $763.6 million denominated in US dollars; (2) $25.1 million denominated in RMB; and (3) $2.6 million in aggregate denominated in Hong Kong dollars, Australian dollars, and Taiwan dollars.

Short-Term Investments

As of December 31, 2023, the Company's short-term investments were $16.3 million, which primarily comprised of time deposits with original maturities between three months and one year. We did not have such short-term investments as of December 31, 2022.

Accounts Receivable

Accounts receivable increased by $19.2 million to $59.2 million as of December 31, 2023, primarily due to increased product sales.

Inventories, Net

Inventories increased by $13.2 million to $44.8 million as of December 31, 2023, primarily due to increased inventory balances of VYVGART in anticipation of the launch of VYVGART in mainland China.

Property and Equipment, Net

Property and equipment, net decreased by $4.1 million to $53.7 million as of December 31, 2023, primarily due to continued depreciation.

Intangible Assets, Net

Intangible assets, net increased by $11.9 million to $13.4 million as of December 31, 2023, primarily due to the increase of capitalized sales-based milestone fees.

Accounts Payable

Accounts payable increased by $47.0 million to $113.0 million as of December 31, 2023, primarily due to increases in accrued sales-based milestone payments, accrued research and development expenses, and accrued inventory purchases.

Other Current Liabilities

Other current liabilities increased by $16.2 million to $83.0 million as of December 31, 2023, primarily due to an increase of accrued rebates to distributors in connection with NRDL-related price reductions, an increase of tax payables, and an increase of accrued professional fees.

Liquidity and Capital Resources

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

	December 31,	
	2023	**2022**
Cash and cash equivalents	790,151	1,008,470
Short-term investments	16,300	—
Restricted cash, non-current	1,113	803
Total	807,564	1,009,273

To date, we have financed our activities primarily through private placements, our September 2017 initial public offering and various follow-on offerings on Nasdaq, and our September 2020 secondary listing and initial public offering on the Hong Kong Stock Exchange. In addition, we have raised approximately $164.6 million in private equity financing and approximately $2,462.7 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us in our initial public offering and subsequent follow-on offerings on Nasdaq and our initial public offering on the Hong Kong Stock Exchange. Our operations have consumed substantial amounts of cash since inception. The net cash used in our operating activities was $198.2 million and $367.6 million in 2023 and 2022, respectively. For information on these activities and related expenditures, see the *Research and Development Expenses*, *Selling, General, and Administrative Expenses*, L*icense and Collaboration Arrangements*, and *Results of Operations* sections above. In addition, as of December 31, 2023, we had commitments for capital expenditures of $1.2 million, mainly for the purpose of plant construction and installation.

As of December 31, 2023, we had cash and cash equivalents, restricted cash, and short-term investments of $807.6 million. Based on our current operating plan, we expect that our cash, cash equivalents, restricted cash, and short-term investments will enable us to meet our cash requirements and fund our operating expenses and capital expenditure requirements for at least the next 12 months.

Although we believe that we have sufficient capital to fund our operations for at least the next twelve months, we may, from time to time, identify opportunities to access capital through debt arrangements on favorable commercial terms. In February 2024, we entered into three such debt arrangements with Chinese financial institutions that allow certain of our subsidiaries to borrow approximately $164.5 million (or RMB1,171.7 million) to support our working capital needs in mainland China. So far, our subsidiaries have entered into

working capital loans with an aggregate principal amount of RMB440.0 million ($61.7 million), which are guaranteed by us. These debt arrangements will provide us with additional capital capacity that gives us enhanced flexibility to execute on our corporate strategic goals.

We may consider, or we may ultimately need, additional funding sources to bring to fruition our research and development objectives or otherwise, and there can be no assurances that such funding will be made available to us on acceptable terms or at all.

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

	Year Ended December 31,		Change
	2023	2022	$
Net cash used in operating activities	(198,178)	(367,642)	169,464
Net cash (used in) provided by investing activities	(10,776)	420,016	(430,792)
Net cash used in financing activities	(6,433)	(1,730)	(4,703)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(2,622)	(6,274)	3,652
Net (decrease) increase in cash, cash equivalents and restricted cash	(218,009)	44,370	(262,379)

In the following sections, we discuss our cash flows by activities in 2023 compared to 2022.

Net Cash Used in Operating Activities

Net cash used in operating activities decreased by $169.5 million in 2023, primarily due to a decrease of $108.7 million in net loss and an increase of $105.9 million in net changes in operating assets and liabilities, partially offset by a decrease of $45.1 million in adjustments to reconcile net loss to net cash used in operating activities.

Net Cash (Used in) Provided by Investing Activities

Net cash used in investing activities was $10.8 million in 2023, compared to net cash provided by investing activities of $420.0 million in 2022. This shift was primarily due to a decrease of $587.6 million in proceeds from maturity of short-term investments, partially offset by a decrease of $126.3 million in purchases of short-term investments, a decrease of $17.4 million in purchases of property and equipment, and proceeds of $13.9 million from a sale of intellectual property and a disposal of land use rights in 2023.

Net Cash Used in Financing Activities

Net cash used in financing activities increased by $4.7 million in 2023, primarily due to a decrease of $3.5 million in proceeds from exercises of share options and an increase of $1.2 million in taxes paid related to settlement of equity awards.

Effect of Exchange Rates on Cash

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

Operating Capital Requirements

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

Although we believe our cash and cash equivalents and short-term investments as of December 31, 2023 will enable us to fund our operating expenses and capital expenditure requirements for at least the next twelve months, we could use our capital resources sooner than we currently expect. Our future capital requirements will depend on many factors, including:

- the cost and timing of future commercialization activities for ZEJULA, OPTUNE, QINLOCK, NUZYRA, VYVGART, and any other product candidates for which we receive regulatory approval;
- the pricing of and product revenues received, if any, from future commercial sales of our approved products and any other products for which we receive regulatory approval;
- the scope, progress, timing, results, and costs of clinical development of our products in additional indications, if any;
- the scope, progress, timing, results, and costs of researching and developing our product candidates and conducting pre-clinical and clinical trials;
- the cost, timing, and outcome of seeking, obtaining, maintaining, and expanding regulatory approval of our products and product candidates;
- our ability to establish and maintain strategic partnerships, including collaboration, licensing, or other arrangements and the economic and other terms, timing, and success of such arrangements;
- the cost, timing, and outcome of preparing, filing, and prosecuting patent applications, maintaining and enforcing our intellectual property rights, and defending any intellectual property related claims;
- the extent to which we acquire or in-license other product candidates and technologies and the economic and other terms, timing, and success of such collaboration and licensing arrangements;
- cash requirements of any future acquisitions;
- the number, characteristics, and development requirements of the product candidates we pursue;

- resources required to develop and implement policies and processes to promote ongoing compliance with applicable healthcare laws and regulations;
- costs required to confirm that our and our partners' business arrangements with third parties comply with applicable healthcare laws and regulations;
- our headcount growth and associated costs; and
- the costs of operating as a public company in both the United States and Hong Kong.

Contractual Obligations and Commitments

As of December 31, 2023, we had purchase commitments of $1.2 million related to the purchase of property and equipment contracted and expected to be incurred within one year. We do not have any other purchase commitments beyond one year.

Disclosures about Market Risk

Foreign Exchange Risk

Renminbi, or RMB, is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China ("**PBOC**"), controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Company included aggregated amounts of $25.1 million and $45.5 million, which were denominated in RMB, as of December 31, 2023 and 2022, respectively, representing 3% and 5% of the cash and cash equivalents as of December 31, 2023 and 2022, respectively.

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

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in Greater China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC.

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

Since 1983, the Hong Kong Monetary Authority ("**HKMA**") has pegged the HK dollar to the U.S. dollar at the rate of approximately HK$7.80 to US$1.00. However, there is no assurance that the HK dollar will continue to

be pegged to the U.S. dollar or that the HK dollar conversion rate will remain at HK$7.80 to US$1.00. If the HK dollar conversion rate against the U.S. dollar changes and the value of the HK dollar depreciates against the U.S. dollar, our assets denominated in HK dollars will be adversely affected. Additionally, if the HKMA were to repeg the HK dollar to, for example, the RMB rather than the U.S. dollar, or otherwise restrict the conversion of HK dollars into other currencies, then our assets denominated in HK dollars will be adversely affected.

Credit Risk

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

The carrying amounts of cash and cash equivalents and short-term investments represent the maximum amount of loss due to credit risk. As of December 31, 2023 and 2022, we had cash and cash equivalents of $790.2 million and $1,008.5 million and short-term investments of $16.3 million and nil, respectively. As of December 31, 2023 and 2022, all of our cash and cash equivalents and short-term investments were held by major financial institutions located in mainland China and international financial institutions outside of mainland China which we believe are of high credit quality and for which we monitor continued credit worthiness.

Accounts receivable are typically unsecured and are derived from product sales. We manage credit risk related to our accounts receivable through ongoing monitoring of outstanding balances and limiting the amount of credit extended based upon payment history and credit worthiness. Historically, we have collected receivables from customers within the credit terms with no significant credit losses incurred. As of December 31, 2023, our two largest customers accounted for approximately 18% of our total accounts receivable collectively.

Certain accounts receivable balances are settled in the form of notes receivable. As of December 31, 2023, such notes receivable included bank acceptance promissory notes that are non-interest bearing and due within six months. These notes receivable were used to collect the receivables based on an administrative convenience, given these notes are readily convertible to known amounts of cash. In accordance with the sales agreements, whether to use cash or bank acceptance promissory notes to settle the receivables is at our discretion, and this selection does not impact the agreed contractual purchase prices.

Gearing Ratio

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

Significant Investments Held

Except the equity investment disclosed in Note 8 to the consolidated financial statements, we did not hold any other significant investments as of December 31, 2023 and 2022.

Future Plans for Material Investments and Capital Assets

We did not have any future plans for material investments or capital assets as of December 31, 2023.

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

In 2023, we did not have any material acquisitions or disposals of subsidiaries, associates, or joint ventures.

Employee and Remuneration Policy

As of December 31, 2023, we had a global team of 2,148 full-time employees, up from 2,041 full-time employees as of December 31, 2022. The remuneration policy for our employees is periodically reviewed by the Compensation Committee of the Board. Employee remuneration packages are determined in consideration of a variety of factors, including market data for companies in similar industries and companies with similar complexity and size. In addition to cash compensation and benefits, we may issue share options, share appreciation rights, restricted shares, unrestricted shares, share units including restricted share units, performance awards, and other types of awards to our employees in accordance with our equity incentive plans. We also provide comprehensive training programs to our employees to meet their various development needs, including leadership development programs, upskills programs, and on-the-job trainings. The total remuneration cost incurred by the Company was $288.6 million and $263.9 million for 2023 and 2022, respectively.

Charges on Group Assets

As of December 31, 2023 and 2022, we did not have any charges on the Company's assets.

Contingent Liabilities

As of December 31, 2023 and 2022, we did not have any material contingent liabilities. See Note 18 to the consolidated financial statements for contractual obligations under licenses and collaborative agreements.

Recent Accounting Pronouncements

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

OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company's corporate governance practices are based on the principles and code provisions set forth in Part 2 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the HK Listing Rules (i.e. the new Appendix C1 to the HK Listing Rules with effect from December 31, 2023).

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

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

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

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

The Company has adopted its own securities dealing policies on terms no less exacting than those in the Model Code for Securities Transactions as set forth in Appendix 10 to the HK Listing Rules (i.e., the new Appendix C3 to the HK Listing Rules with effect from December 31, 2023) (the "**Model Code**") regarding director dealings in the securities of the Company.

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

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

During the Reporting Period, the Company did not purchase, sell, or redeem any of the Company's securities listed on the Hong Kong Stock Exchange.

Use of Net Proceeds

Use of Net Proceeds from April 2021 Offering

In April 2021, the Company issued 224,000 ordinary shares (equivalent to 2,240,000 ordinary shares after the Share Subdivision) of the Company at a price of HK$1,164.20 per share (equivalent to HK$116.42 per ordinary share after the Share Subdivision) and 5,492,400 ADSs at a price of US$150.00 per ADS for aggregate cash consideration (before deducting underwriting discounts and commissions and other offering expenses) of approximately $857.5 million. See Note 2(a) to the consolidated financial statements for additional information on the Share Subdivision.

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

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

The following table sets forth a summary of the utilization of the net proceeds from this offering as of December 31, 2023 ($ in millions):

Purpose	**Percentage to total amount**	**Net proceeds from the offering**	**Amount of net proceeds unutilized as of January 1, 2023**	**Amount of net proceeds utilized during the Reporting Period**	**Actual use of proceeds up to December 31, 2023**	**Unutilized amount as of December 31, 2023**
Fund new business and corporate development and licensing opportunities	30.0 %	245.4	245.4	—	—	245.4
Complete clinical trials and advance new drug candidates	30.0 %	245.4	109.6	109.6	245.4	—
Expand the Company's commercialization efforts	20.0 %	163.6	70.2	70.2	163.6	—
Enhance the Company's global pipeline	15.0 %	122.7	122.7	14.1	14.1	108.6
Working capital and other general corporate purposes	5.0 %	40.9	40.9	—	—	40.9
Total	100.0 %	818.0	588.8	193.9	423.1	394.9

The Company plans to gradually utilize the remaining net proceeds from the April 2021 offering in accordance with such intended purpose depending on actual business, which is expected to be fully utilized by the end of 2027.

Use of Net Proceeds from the Global Offering

Dealings in ordinary shares on the Hong Kong Stock Exchange commenced on September 28, 2020. The net proceeds raised from the global offering (the "**Global Offering**") as described in the prospectus of the Company dated September 17, 2020 (the "**Prospectus**"), after deduction of the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the Global Offering, were approximately HK$6,636.2 million (US$850.8 million). The intended uses for the net proceeds received by the Company from the Global Offering, as previously disclosed in "Use of Proceeds" in the Prospectus, included the following:

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

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

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

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

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

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

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

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

The following table presents a summary of the utilization of the net proceeds from the Global Offering as of December 31, 2023 ($ in millions):

Purpose	Percentage to total amount	Net proceeds from the offering	Amount of net proceeds unutilized as of January 1, 2023	Amount of net proceeds utilized during the Reporting Period	Actual use of proceeds up to December 31, 2023	Unutilized amount as of December 31, 2023
For ZEJULA to seek indication expansion and hire high-caliber R&D staff dedicated to its development, and to develop and improve the Company's manufacturing facilities to bring ZEJULA to commercialization	16.0 %	136.1	79.2	4.7	61.6	74.5
Fund ongoing and planned clinical trials and preparation for registration filings of Tumor Treating Fields in multiple solid tumor cancer indications	6.2 %	52.7	33.9	2.3	21.1	31.6
For ZEJULA to enhance the Company's commercialization capabilities through increasing its sales and marketing headcounts, among other efforts	16.0 %	136.1	39.8	22.2	118.5	17.6
Strengthen commercialization efforts for Tumor Treating Fields through recruiting key talents in relevant indications to drive sales and future potential product launch	8.0 %	68.1	25.3	10.5	53.3	14.8
Fund the Company's ongoing and planned clinical trials and preparation for registration filings of other drug candidates in the pipeline, especially late-stage drug candidates	11.8 %	100.4	—	—	100.4	—

Explore new global licensing and collaboration opportunities and bring in potentially global best-in-class/ first-in-class assets with clinical validation, synergistic with the Company's current pipeline and aligned to its expertise	25.0 %	212.7	44.4	19.3	187.6	25.1
Continue investing in and expanding the Company's internal discovery pipeline and recruit and train talent globally	7.0 %	59.6	36.6	36.6	59.6	—
Fund working capital and other general corporate purposes	10.0 %	85.1	30.7	—	54.4	30.7
Total	100.0 %	850.8	289.9	95.6	656.5	194.3

During the year ended December 31, 2023, there was no change in the intended use of net proceeds as previously disclosed in the section "Use of Proceeds" in the Prospectus.

As disclosed in the Company's announcement dated March 28, 2024, since we do not currently plan to seek indication expansion or hire high-caliber R&D staff dedicated to the development of ZEJULA, and our manufacturing facilities are expected to be sufficient to support our commercial needs for ZEJULA in the near future, the Company considered that it may no longer be necessary to continue to use the funds designated for ZEJULA for the initial intended purpose (i.e. the first purpose set out in the table above). As a result, we had decided to reallocate such remaining funds, being $74.5 million, to fund the Company's ongoing and planned clinical trials and preparation for registration filings of other drug candidates in the pipeline, especially late-stage drug candidates (i.e. the fifth purpose set out in the table above).

The Company plans to gradually utilize the remaining net proceeds from the Global Offering in accordance with such intended purposes depending on actual business, which is expected to be fully utilized by the end of 2027.

Audit Committee Review of Financial Statements

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

The Audit Committee has reviewed the consolidated financial statements and annual results of the Company for the year ended December 31, 2023. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal controls with members of senior management and the external auditor of the Company, KPMG, a public interest entity auditor registered in accordance with the Accounting and Financial Reporting Council Ordinary in Hong Kong. The consolidated financial statements included in this announcement have been audited by KPMG.

Important Events after the Reporting Period

Except as disclosed in Note 23 to the consolidated financial statements contained in this announcement and in the section headed "Use of Net Proceeds - Use of Net Proceeds from the Global Offering" above, there were no important events after the Reporting Period.

Annual General Meeting and Record Date

The annual general meeting of the Company (the "**AGM**") is scheduled to be held on June 18, 2024.

The Company announces that the record date for the purpose of determining the eligibility of the holders of the ordinary shares of the Company with par value of $0.000006 each in the share capital of the Company (the "**Ordinary Shares**") to attend and vote at the forthcoming AGM will be on Monday, April 22, 2024 (Shanghai and Hong Kong Time) (the "**Ordinary Share Record Date**"). In order to be eligible to attend and vote at the AGM, all valid documents for the transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, April 22, 2024 (Shanghai and Hong Kong Time). All persons who are registered holders of the Ordinary Shares on the Ordinary Share Record Date will be entitled to attend and vote at the AGM.

Holders of ADSs issued by Citibank, N.A., as depositary of the ADSs, and representing the right to receive the Ordinary Shares will not be entitled to attend the AGM and cannot vote their ADSs directly. Holders of record of ADSs as of 4:30 p.m. on Monday April 22, 2024 (U.S. Eastern Time) (the "**ADS Record Date**", together with the Ordinary Share Record Date, the "**Record Date**") may exercise the voting rights with respect to the Ordinary Shares underlying his, her or its ADSs in accordance with the provisions of the deposit agreement among the Company, Citibank, N.A. and the holders and beneficial owners of ADSs. Holders of record of ADSs as of the ADS Record Date who wish to exercise their voting rights for the underlying Ordinary Shares must act through Citibank, N.A. The deposit agreement permits registered holders of ADSs as of the ADS Record Date to instruct Citibank, N.A. to exercise the voting rights for the Ordinary Shares underlying his, her or its ADSs. Citibank, N.A. has agreed that it will endeavor, insofar as practicable and permitted under and in accordance with applicable law and the provisions of the deposit agreement, to vote the securities (in person or by proxy) represented by the holder's ADSs in accordance with such voting instruction. If a holder of ADSs cancels his, her or its ADSs in exchange for Ordinary Shares on or prior to the ADS Record Date, such holder of ADSs will not be able to instruct Citibank, N.A., as depositary of the ADSs, as to how to vote the Ordinary Shares represented by the cancelled ADSs as described above. Holders of ADSs who wish to cancel their ADSs in exchange for Ordinary Shares for the purpose of voting the Ordinary Shares directly will need to make arrangements to deliver their ADSs to Citibank, N.A., as depositary of the ADSs, for cancellation with sufficient time to allow for the completion of the delivery and, if applicable, the re-registration of the Ordinary Shares on the Company's register of members in Hong Kong prior to the Ordinary Share Record Date, together with (a) delivery instructions for the corresponding Ordinary Shares (including, if applicable, the name and address of the person(s) who will be the registered holder(s) of such Ordinary Shares) and (b) payment of the ADS depositary fees associated with such ADS cancellation ($0.05 per ADS to be cancelled) and any applicable taxes. If ADSs are held in a brokerage firm, bank or other financial institution, please contact the broker, bank or other financial institution to find out what actions need to be taken to instruct the broker, bank or other financial institution to present the ADSs for cancellation. Please be aware that there are no guarantees of timely delivery or re-registration of Ordinary Shares prior to the Ordinary Share Record Date due to the time differences between U.S. Eastern Time and Shanghai and Hong Kong Time, as well as the time required for processing the ADS cancellations, the delivery of Ordinary Shares and, if applicable, the re-registration of Ordinary Shares on the Company's register of members in Hong Kong.

Details including the date and location of the AGM will be set out in the notice of AGM to be issued and provided to holders of our Ordinary Shares and ADSs as of the respective Record Date together with the proxy materials in due course.

Publication of Annual Results and Annual Report

This announcement is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Company (www.zailaboratory.com). The annual report of the Company for the Reporting Period will be published on the aforesaid websites and (if applicable) dispatched to the Company's shareholders in due course.

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

Hong Kong, March 28, 2024

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

** For identification only*