KELUN-BIOTECH
科伦博泰

四川科倫博泰生物醫藥股份有限公司

Sichuan Kelun-Biotech Biopharmaceutical Co.,Ltd.

(於中華人民共和國註冊成立的股份有限公司)

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code股份代號:6990

2023

ANNUAL REPORT

年報

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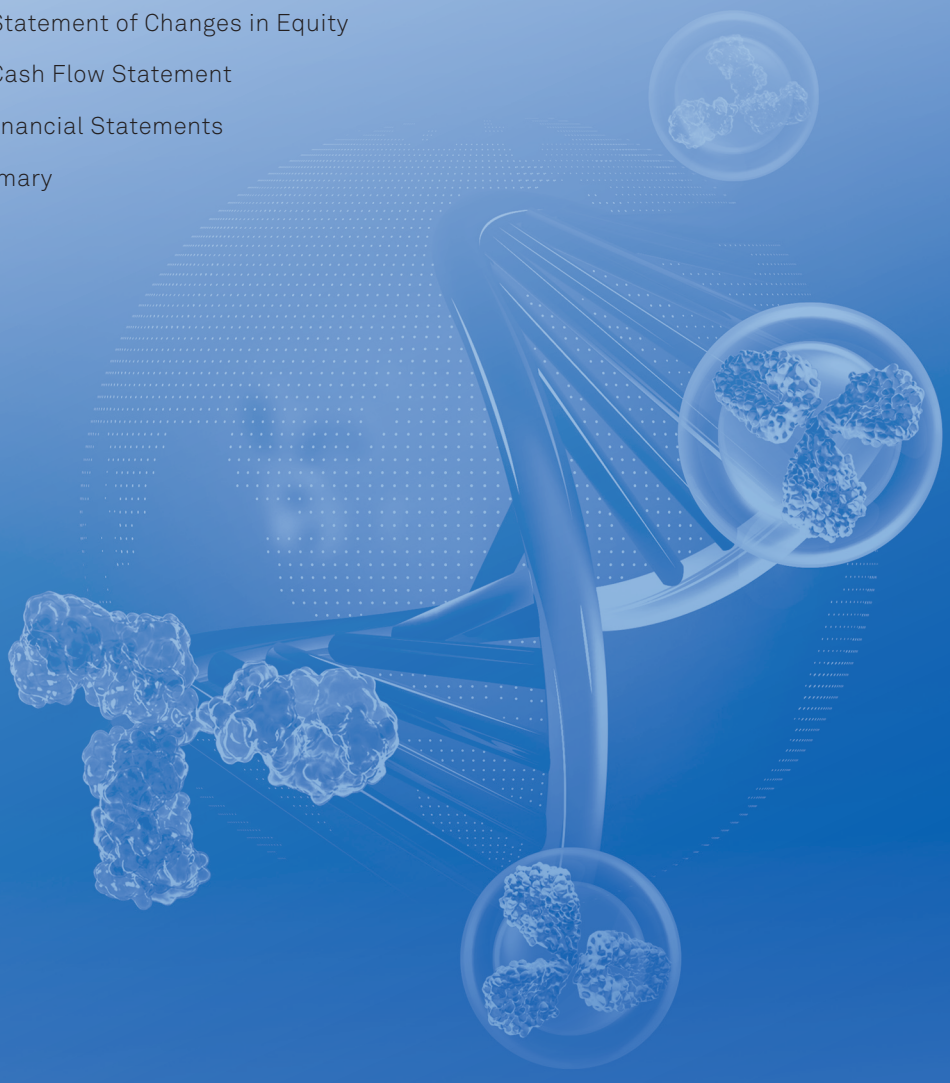

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman of the Board and Non-executive Director

Mr. LIU Gexin (劉革新) *(Chairman)*

Executive Directors

Dr. GE Junyou (葛均友)
Dr. WANG Jingyi (王晶翼)

Non-executive Directors

Mr. LIU Sichuan (劉思川)
Mr. FENG Hao (馮昊)
Mr. ZENG Xuebo (曾學波)
Mr. LI Dongfang (李東方)

Independent Non-executive Directors

Dr. ZHENG Qiang (鄭強)
Dr. TU Wenwei (涂文偉)
Dr. JIN Jinping (金錦萍)
Dr. LI Yuedong (李越冬)

JOINT COMPANY SECRETARIES

Mr. ZHOU Zejian (周澤劍)
Ms. FUNG Wai Sum (馮慧森)

AUTHORIZED REPRESENTATIVES

Dr. GE Junyou (葛均友)
Ms. FUNG Wai Sum (馮慧森)

SUPERVISORS

Mr. LAI Degui (賴德貴)
Ms. LIAO Yihong (廖益虹)
Mr. WAN Peng (萬鵬)
Dr. SONG Hongmei (宋宏梅)
Ms. YANG Qiuyan (楊秋豔)
Dr. QING Yan (卿燕)

AUDIT COMMITTEE

Dr. LI Yuedong (李越冬) *(Chairperson)*
Dr. TU Wenwei (涂文偉)
Dr. JIN Jinping (金錦萍)

REMUNERATION COMMITTEE

Dr. ZHENG Qiang (鄭強) *(Chairperson)*
Mr. LIU Sichuan (劉思川)
Dr. JIN Jinping (金錦萍)

NOMINATION COMMITTEE

Mr. LIU Gexin (劉革新) *(Chairperson)*
Dr. ZHENG Qiang (鄭強)
Dr. TU Wenwei (涂文偉)

AUDITOR

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10 Chater Road
Central
Hong Kong

REGISTERED OFFICE, HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Sichuan Province, PRC

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Kowloon
Hong Kong

PRINCIPAL BANKS

Industrial and Commercial Bank of China
Chengdu Xindu Sub-Branch

Industrial Bank Co., Ltd.
Chengdu Wenjiang Sub Branch

Bank of Communications Co., Ltd.
Xindu Sub Branch

China CITIC Bank Corporation Ltd.
Chengdu Yingbin Avenue Sub Branch

COMPLIANCE ADVISER

First Shanghai Capital Limited

HONG KONG LEGAL ADVISER

Sullivan & Cromwell (Hong Kong) LLP

H SHARE REGISTRAR

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Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

H Share: 06990

COMPANY'S WEBSITE

https://kelun-biotech.com

CHAIRMAN'S STATEMENT

Dear Shareholders:

I hereby represent the Board of Directors of the Company to thank you for your long-standing trust and support in Kelun-Biotech.

2023 was a year of vigorous effort for the Company. We have adhered to an innovation-driven development strategy and actively explored new approaches to cutting-edge technology and the treatment of major diseases; we have continuously mined and rapidly validated the clinical value of core products. The marketing applications for three products, A166 (舒泰來®, a HER2-ADC), A140 (達泰萊®, cetuximab), and SKB264 (佳泰萊®, MK-2870, a TROP2-ADC), have been successively accepted by the Center for Drug Evaluation (CDE) of the National Medical Products Administration. Six new studies have received approval for clinical trials from the CDE, and eight registrational clinical trials are being rapidly advanced.

We have established a quality system for pharmaceutical R&D and production throughout the entire lifecycle that complies with international standards such as the FDA and EU regulations, as well as ICH guidelines. We have continuously consolidated an integrated comprehensive production platform and have initiated the construction of commercial capabilities. We have set up a fully-fledged commercialization team to prepare and implement the marketing and commercialization of our strategic products. While we are meticulously planning and formulating innovative product promotion strategies, we are also actively expanding and enhancing the market influence and brand reputation of our Company and products to lay a solid foundation for future high-level commercialization. We will continue to refine the commercialization strategy for our drug candidates, give priority to therapeutic areas with medical needs in China, and provide synergistic treatment options through a diversified pipeline to optimize the treatment outcomes of patients.

We are continuing the "create blue oceans" strategy globally to accelerate our integration into the global drug innovation field through international cooperation and complementary advantages, and share the benefits of the development of the global pharmaceutical market. In 2023, we received multiple payments from Merck Sharp & Dohme, initiated three pivotal phase 3 clinical trials, deepened the friendly cooperation between both parties and advanced the subsequent development of SKB264 (MK-2870). We entered into a collaboration and license agreement with Ellipses, and A400 (EP0031) was granted Fast Track Designation by the FDA and we received the relevant milestone payments.

We are leveraging the advantages of our existing technology platforms to accelerate the R&D of new ADC drugs, initiate the overall planning of radionuclide drug conjugates (RDCs), and continuously explore new directions in drug conjugation technologies, so as to solidify the foundation for the sustained value enhancement of our innovative pipelines.

On July 11, 2023, Kelun-Biotech was successfully listed on the Stock Exchange of Hong Kong, which was the largest IPO in the medical and health sector of the Hong Kong capital market since 2022, and was awarded "Best IPO of the Year in Asia and Hong Kong, China" at the FinanceAsia Achievement Awards 2023. After going public, the Company is using diversified capital operation strategies to continuously optimize its capital structure to further enhance the Company's market image and influence.

Prospects: As heaven's movement is ever vigorous, so must a gentleman ceaselessly strive along. 2024 will be a year of bountiful harvests to look forward to. We will accelerate the arrival of multiple milestones for new drug IND submissions and marketing. We will continue to improve our "end-to-end" drug development capabilities, production capabilities, and commercialization system construction, to form an industry chain that covers the entire cycle of innovative drug development. At the same time, we will further actively promote the Company's global strategic cooperation to maximize the global value of our pipelines.

Among the many sufferings of humanity, disease brings the most perilous disaster. We are fortunate to have become guardians of human life, joining forces with partners in the medical field to fight against disease, and striving to restore health and happiness to countless patients and their families. We firmly believe that this noble effort will promote the advancement of medical technologies, thereby benefiting all of humanity.

Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd.
LIU Gexin
Chairman of the Board and Non-executive Director

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	Year ended December 31,		
	2023	2022	Year to year
	RMB'000	RMB'000	change
	(Audited)	(Audited)	
Revenue	**1,540,493**	803,933	91.6%
Gross profit	**759,185**	527,105	44.0%
Research and development expenses	**(1,030,966)**	(845,984)	21.9%
Loss for the year	**(574,134)**	(616,099)	-6.8%
Adjusted loss for the year[(1)]	**(450,788)**	(596,288)	-24.4%
Net cash generated from/(used in) operating activities	**59,559**	(270,847)	

	As at	As at	
	December 31,	December 31,	
	2023	2022	
Cash and financial assets[(2)]	**2,528,342**	119,221	
Bank loans and other borrowings	**–**	2,890,787	

Notes :

(1) Calculated by deducting equity-settled share-based payment from loss for the year.

(2) Comprises cash and cash equivalents, restricted deposits, financial assets measured at fair value through profit or loss, and financial assets measured at amortized cost.

BUSINESS HIGHLIGHTS

Since the beginning of 2023, we have made encouraging progress in our business:

- Key developments of our Core Product SKB264/MK-2870 (Sacituzumab Tirumotecan for Injection):
  - **TNBC.** We completed patient enrollment for a pivotal phase 3 trial for advanced TNBC in China. In August 2023, we announced that the phase 3 clinical trial of SKB264 (MK-2870) in patients with unresectable locally advanced, recurrent or metastatic TNBC who have failed second-line or above prior standard of care met the primary endpoint.

    In December 2023, the NDA for SKB264 (MK-2870) in adult patients with unresectable locally advanced or metastatic TNBC who have received at least two prior systemic therapies (at least one of them for advanced or metastatic setting) was accepted by the CDE of the NMPA. The NDA was included in the priority review and approval process of the CDE in November 2023.

    The updated efficacy and safety results from a phase 2 expansion cohort in patients with previously treated metastatic TNBC for SKB264 (MK-2870) was presented on December 6, 2023 at the 2023 SABCS. SKB264 demonstrated an ORR of 42.4% and DCR of 76.3%. The median PFS was 5.7 months. Median OS was 16.8 months.

    In March 2024, SKB264 (MK-2870) was granted Breakthrough Therapy Designation by the NMPA for first-line treatment of unresectable locally advanced, recurrent or metastatic PD-L1 negative TNBC. We have initiated a phase 3 pivotal trial for 1L advanced TNBC accordingly.

  - **HR+/HER2- BC.** In June 2023, SKB264 (MK-2870) was granted Breakthrough Therapy Designation by the NMPA for locally advanced or metastatic HR+/HER2- BC who have previously received at least 2L systematic chemotherapy. We initiated a registrational phase 3 study for 2L+ HR+/HER2- metastatic BC.

    In September 2023, the CDE of the NMPA approved the IND application for SKB264 (MK-2870) with or without KL-A167 (anti-PD-L1 inhibitor) in patients with unresectable locally advanced, recurrent or metastatic HR+/HER2- BC.

    Data was presented on October 22, 2023 at the 2023 ESMO Congress from a phase 1/2 clinical trial for SKB264 (MK-2870) for previously-treated patients with metastatic HR+/HER2- BC. Results showed that SKB264 (MK-2870) had a manageable safety profile and showed promising anti-tumor activity. SKB264 demonstrated an ORR of 36.8%, DCR of 89.5% and median PFS of 11.1 months.

- **EGFR-mutant NSCLC.** In January 2023, SKB264 (MK-2870) was granted Breakthrough Therapy Designation by the NMPA for EGFR-TKI failed EGFR-mutant locally advanced or metastatic NSCLC.

  In July 2023, we achieved first-patient-in for a pivotal phase 3 trial of SKB264 (MK-2870) for EGFR-mutant locally advanced or metastatic non-squamous NSCLC (following TKI failure) in China.

  Data presented on June 4, 2023 at the 2023 ASCO Annual Meeting from a phase 2 study of SKB264 (MK-2870) in patients with treated locally advanced or metastatic NSCLC showed that the SKB264 (MK-2870) demonstrated promising efficacy and manageable safety profile. For the subgroup with TKI-resistant EGFR-mutant NSCLC (among which 50% also failed at least one line of chemotherapy), SKB264 (MK-2870) demonstrated an ORR of 60.0%, DCR of 100% and median PFS of 11.1 months.

- **EGFR-wild type NSCLC.** We are conducting a phase 2 trial for SKB264 (MK-2870) in combination with A167 with or without chemotherapy for EGFR-wild type advanced NSCLC in China.

  2023 ASCO data for the subgroup of patients with EGFR wild-type (who previously received median 2 lines of therapy including anti-PD-(L)1 therapy) showed that SKB264 (MK-2870) demonstrated an ORR of 26%, DCR of 89% and median PFS of 5.3 months.

- Key developments of our Core Product A166 (Trastuzumab Botidotin for Injection):
  - A166 has met the primary endpoints of its pivotal phase 2 trial for 3L+ advanced HER2+ BC based on results from the primary analysis, which we used to submit an NDA to the NMPA in May 2023.
  - We are conducting a confirmatory phase 3 trial in China for 2L+ advanced HER2+ BC which we initiated in June 2023.
- Key developments of our other ADC products:
  - **SKB315/MK-1200.** We are carrying out certain activities in support of MSD's global clinical development, including a phase 1a clinical trial of SKB315 in patients with advanced solid tumors in China. A global phase 1/2 clinical study is in progress.
  - **SKB410/MK-3120.** In February 2023, we received IND approval from the NMPA for SKB410 which targets advanced solid tumors. The phase 1a clinical study is currently in progress.
  - **SKB501.** An IND application was accepted in the first quarter of 2024.

- Key developments of our other key products:
  - **A167 (Tagitanlimab Injection).** We have completed patient enrollment of the phase 3 trial of A167 in combination with chemotherapy as a 1L treatment for RM-NPC.
  - **A140.** The NDA for the use of A140 for the treatment of RAS wild-type mCRC and HNSCC was accepted by the NMPA in September 2023.
  - **A400.** We commenced pivotal trials for advanced RET+ NSCLC in July 2023 and patient enrollment is in progress.

    On June 5, 2023, data from the phase 1 clinical study of our second-generation selective RET inhibitor A400 was shared in the form of an oral presentation at a session of the 2023 ASCO Annual Meeting. A400 demonstrated ORR of 80.8% and 69.7% for 1L and 2L+ advanced RET+ NSCLC, respectively, and DCR of over 96% in both cases.

    In November 2023, A400 was granted Orphan Drug Designation by the FDA for the treatment of RET fusion-positive solid tumors. In March 2024, A400 was granted Fast Track designation by the FDA for the treatment of RET fusion-positive NSCLC.

- Key developments of our other products:
  - **A223.** We completed patient enrollment for phase 2 trials in patients with moderate-to-severe RA and are conducting a phase 2 trial in patients with severe AA in China.
  - **A277.** We are conducting a phase 2 trial in patients with chronic kidney disease-associated pruritus (CKD-aP) in China.
  - **SKB378.** We completed phase 1 clinical trial in healthy subjects in China.
  - **SKB336.** We completed phase 1 clinical trial in healthy subjects in China.
  - **A296.** We initiated a phase 1 trial in China and the trial is making steady progress.

- **Commercialization.** We have set up a fully-fledged commercialization team to prepare and implement the marketing and commercialization of our strategic products. We have established a departmental structure within the Company, consisting of various departments such as Marketing, Access and Distribution, Medical Affairs, Sales, and Strategic Planning and Commercial Excellence. We will continue to refine our commercialization strategies for each late-stage drug candidate, first prioritizing therapeutic areas with medical needs in China, such as BC, NSCLC and GI cancers, while offering synergistic treatment options enabled by our diverse pipeline to optimize patient outcome. Globally, we will also continue to pursue a flexible strategy to capture the commercial value in major international markets, through forging synergistic license and collaboration opportunities worldwide.

- Highlights of our License and Collaboration Arrangements.
  - We have entered into three license and collaboration agreements with MSD to develop multiple ADC assets for cancer treatment. Under the agreements, we have granted MSD (1) an exclusive, royalty-bearing and sub-licensable license to develop, use, manufacture and commercialize SKB264 (MK-2870) outside Greater China, (2) an exclusive, royalty-bearing, sub-licensable license to develop, use, manufacture and commercialize SKB315 globally, and (3) exclusive global licenses to research, develop, manufacture and commercialize multiple investigational preclinical ADC therapies and exclusive options to obtain additional licenses to ADC candidates. We retain the right to research, develop, manufacture and commercialize certain licensed and option ADCs for mainland China, Hong Kong and Macau.

    During the Reporting Period, MSD made several payments to us, including (1) a non-refundable upfront payment of US$175.0 million (equivalent to approximately RMB1,205.5 million[(3)]) in March 2023 pursuant to an exclusive license and collaboration agreement we entered into with MSD to develop multiple preclinical ADC assets, (2) payments totaling US$30.0 million (equivalent to approximately RMB215.3 million[(4)]) made upon achieving certain milestones in October 2023 pursuant to our license and collaboration agreement with MSD to develop, use, manufacture and commercialize SKB264 (MK-2870), as well as (3) reimbursements for routine R&D expenses incurred for our license and collaboration projects.

    MSD initiated three pivotal global phase 3 clinical trials in 2023, evaluating SKB264 (MK-2870) as a monotherapy for the treatment of previously treated advanced or metastatic NSCLC with EGFR mutations or other genomic alterations, as a monotherapy for the treatment of EC who have received prior platinum-based chemotherapy and immunotherapy, and in combination with pembrolizumab for metastatic NSCLC expressing PD-L1 greater than or equal to 50 percent. Such clinical trials for NSCLC and EC have triggered payment of the relevant clinical milestones in the aggregate amount of US$75.0 million (equivalent to approximately RMB532.9 million[(5)]) and the Company has received the payment from MSD in the first quarter of 2024.

    In January 2023, MSD subscribed for the Shares in our Company at a consideration of US$100.0 million (equivalent to approximately RMB677.0 million[(6)]) as part of the Series B Financing.

Notes:

(3) Based on the exchange rate of US$1: RMB6.8886 published by the State Administration of Foreign Exchange of the PRC on March 30, 2023 for illustration purpose.

(4) Based on the exchange rate of US$1: RMB7.1779 published by the State Administration of Foreign Exchange of the PRC on October 31, 2023 for illustration purpose.

(5) Based on the exchange rate of US$1: RMB7.1059 published by the State Administration of Foreign Exchange of the PRC on March 1, 2024 for illustration purpose.

(6) Based on the exchange rate of US$1: RMB6.7702 published by the State Administration of Foreign Exchange of the PRC on January 20, 2023 for illustration purpose.

- During the Reporting Period, we have received a milestone payment from Ellipses pursuant to a collaboration and license agreement we entered into with Ellipses, under which we granted Ellipses an exclusive, revenue sharing, royalty-bearing, sub-licensable license to develop, manufacture and commercialize A400. A400 is known as EP0031 by Ellipses.

  Clinical trial applications of A400/EP0031 were approved by the Spanish agency, French agency and UK agency in February, August and September 2023, respectively. As of December 31, 2023, a total of 17 clinical sites in the United States and Europe were set up for A400/EP0031. In November 2023, A400/EP0031 was granted Orphan Drug Designation by the FDA for the treatment of RET fusion-positive solid tumors. In March 2024, A400/EP0031 was granted Fast Track designation by the FDA for the treatment of RET-fusion positive NSCLC.

- In September 2023, we entered into an exclusive license agreement with the Affiliated Hospital of SMU for TBM-001, under which the Company was granted an exclusive license to research, develop and commercialize TBM-001 globally.

- **Listing on the Stock Exchange.** On July 11, 2023, the Company was successfully listed on the Main Board of the Stock Exchange. The net proceeds arising from the Listing amounted to approximately HK$1,258.9 million (equivalent to approximately RMB1,155.7 million[7]). On August 8, 2023, the Company also received net proceeds of additional HK$196 million (equivalent to approximately RMB179.7 million[8]) from the full exercise of the Over-Allotment Option.

Notes:

(7) Based on the exchange rate of HK$1: RMB0.91803 published by the State Administration of Foreign Exchange of the PRC on July 11, 2023 for illustration purpose.

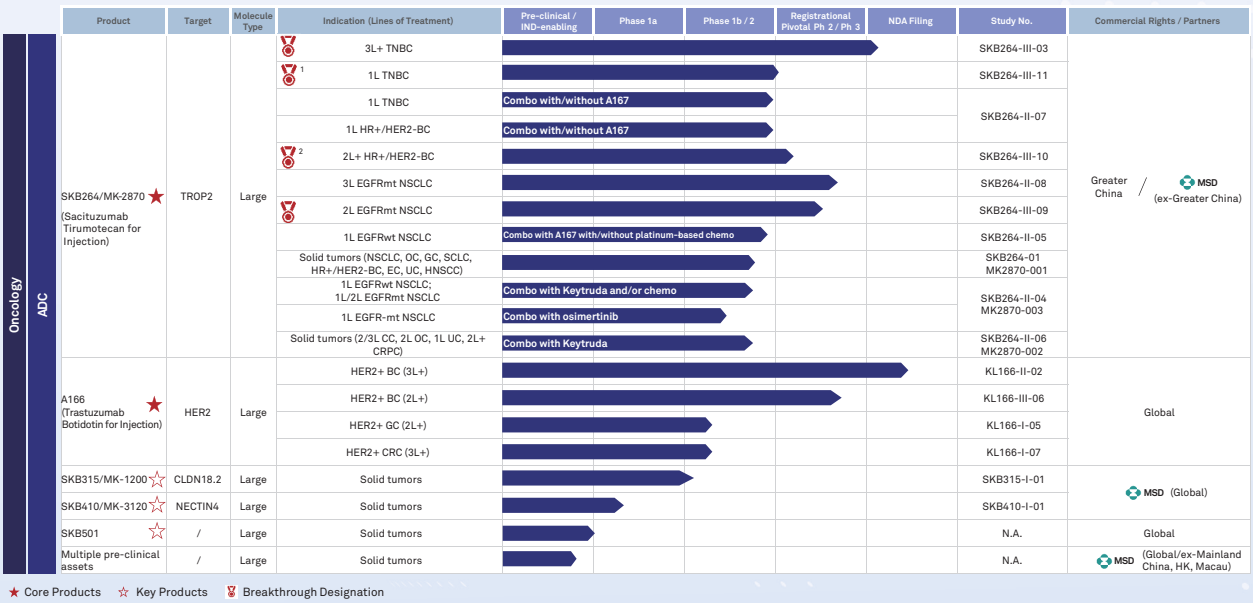
(8) Based on the exchange rate of HK$1:RMB0.91663 published by the State Administration of Foreign Exchange of the PRC on August 8, 2023 for illustration purpose.

I. BUSINESS REVIEW

OVERVIEW

We are a biopharmaceutical company committed to the research and development (R&D), manufacturing and commercialization of novel drugs in oncology, immunology and other therapeutic areas. We have two antibody drug conjugate (ADC) drugs as our Core Products, namely, SKB264 and A166. SKB264 is a novel NDA-stage TROP2 ADC positioned as a late-line monotherapy and part of early-line combination therapies for treating various advanced solid tumors. A166 is a differentiated NDA-stage HER2 ADC positioned as a late-line monotherapy to treat advanced HER2-positive (HER2+) solid tumors. As at the date of the Annual Results Announcement, we were also developing no less than 10 non-core clinical-stage assets in our pipeline.

The pipeline chart below summarizes the development status of our main clinical-stage drug candidates and selected preclinical assets as at the date of the Annual Results Announcement.

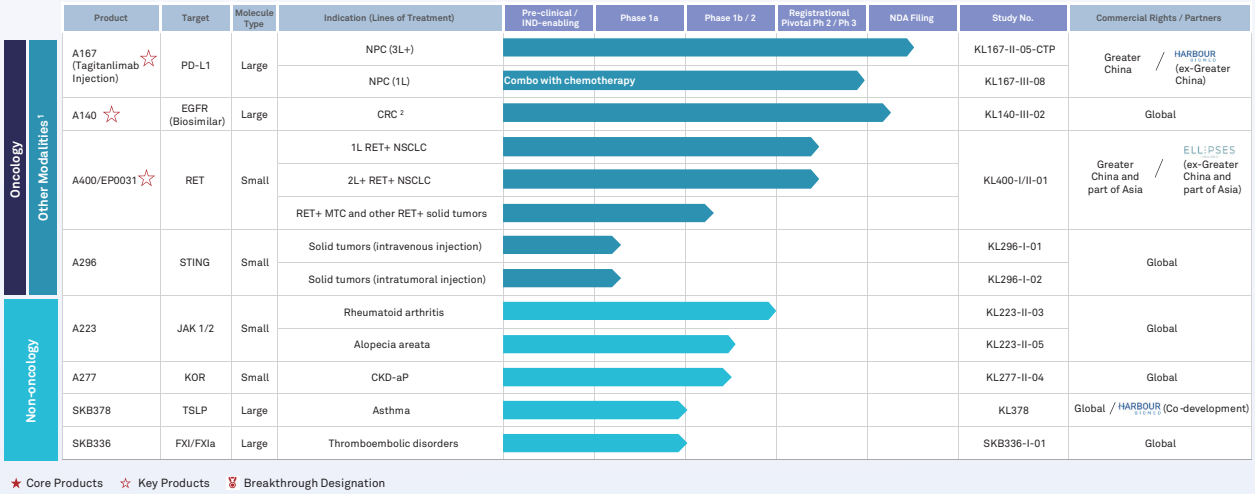


Abbreviations: TNBC: triple-negative breast cancer; BC: breast cancer; NSCLC: non-small-cell lung cancer; NPC: nasopharyngeal cancer; GC: gastric cancer; OC: ovarian cancer; SCLC: small-cell lung cancer; UC: urothelial cancer; HNSCC: head and neck squamous cell carcinoma; EC: endometrial cancer; CC: cervical cancer; CRPC: castration-resistant prostate cancer; CRC: colorectal cancer; MTC: medullary thyroid cancer

Note:

[1] In March 2024, SKB264 was granted Breakthrough Therapy Designation for first-line treatment of unresectable locally advanced, recurrent or metastatic PD-L1 negative TNBC;

[2] In June 2023，SKB264 was granted Breakthrough Therapy Designation for locally advanced or metastatic HR+/HER2- BC who have previously received at least 2L systematic chemotherapy.



Abbreviations: TNBC: triple-negative breast cancer; BC: breast cancer; NSCLC: non-small-cell lung cancer; NPC: nasopharyngeal cancer; GC: gastric cancer; OC: ovarian cancer; SCLC: small-cell lung cancer; UC: urothelial cancer; HNSCC: head and neck squamous cell carcinoma; EC: endometrial cancer; CC: cervical cancer; CRPC: castration-resistant prostate cancer; CRC: colorectal cancer; MTC: medullary thyroid cancer

Note: 1 Including immunotherapy and targeted therapies;

2 No phase 2 clinical trial is required for biosimilar drug candidates in China; all approved indications of the original drug, including CRC and HNSCC, can be applied for by extrapolation of indications upon approval.

WE MAY NOT BE ABLE TO SUCCESSFULLY DEVELOP AND/OR MARKET OUR CORE PRODUCTS, OR ANY OF OUR DRUG CANDIDATES.

Supported by three in-house developed technology platforms with proprietary know-how in ADCs, biologics (monoclonal antibodies (mAbs) and bispecific antibodies (bsAbs)) and small molecule drugs and validated by our clinical-stage drug candidates, our pipeline is diverse and synergistic in drug modalities, mechanisms, and indication coverage. Notably, we are one of the first movers in the development of ADCs, with over a decade of accumulated experience in ADC development. We are one of the first biopharmaceutical companies in China, and one of the few globally, to establish an in-house developed ADC platform, OptiDC. Our drug development capabilities are further bolstered by current good manufacturing practice (cGMP)-compliant, end-to-end manufacturing capabilities and a comprehensive quality control system. Furthermore, we are well-positioned to expand our commercialization infrastructure and market access, leveraging our Controlling Shareholder Kelun Pharmaceutical's decades-long experience, industry connections and extensive network.

The clinical value of our pipeline and our drug development capabilities are recognized by the strategic partnerships we have forged worldwide to unlock the global market potential of key assets. We have entered into three license and collaboration agreements with MSD to develop multiple ADC assets for cancer treatment including clinical-stage ADC assets (including the Group's Core Product SKB264 and key products SKB315 and SKB410) and preclinical ADC assets. According to Frost & Sullivan, we are the first China-based company to license internally discovered and developed ADC candidates to a top-ten biopharmaceutical multinational corporation. We have also entered into collaboration and license agreements with, among others, Ellipses, Harbour BioMed and the Affiliated Hospital of Southwest Medical University. Our strategic partnerships are not only testaments to our R&D and business development capabilities, but also key drivers of our continued innovation, global influence and long-term growth.

OUR PIPELINE

Our pipeline targets the world's prevalent or hard-to-treat cancers, such as breast cancer (BC), non-small cell lung cancer (NSCLC), gastrointestinal (GI) cancers (including gastric cancer (GC) and colorectal cancer (CRC)), as well as non-oncology diseases and conditions affecting a large and underserved population. As at the date of the Annual Results Announcement, we had established a pipeline of over 10 clinical-stage drug candidates, including four in new drug application (NDA) filing-stage and one in pivotal trial. We have also assembled a diverse portfolio of preclinical assets, including multiple (of which the majority are ADC and ADC-derivative assets) proposed for Investigational New Drug (IND) filing in 2024, to further enrich our expanding pipeline targeting medical needs.

Our oncology franchise

Our oncology franchise features diversified treatment modalities and targets different mechanisms to comprehensively treat prevalent or hard-to-treat cancers in China and worldwide, anchored by the following assets:

- *ADC:*
  - ***SKB264 (MK-2870) (Sacituzumab Tirumotecan for Injection)***, one of our Core Products, a novel TROP2 ADC targeting advanced solid tumors;
  - ***A166 (Trastuzumab Botidotin for Injection)***, another Core Product, a differentiated HER2 ADC in NDA registration stage to treat advanced HER2+ solid tumors;
  - ***SKB315 (MK-1200)***, a novel CLDN18.2 ADC targeting advanced solid tumors;
  - ***SKB410 (MK-3120)***, a novel Nectin-4 ADC targeting advanced solid tumors; and
  - ***SKB501***, a novel ADC targeting advanced solid tumors with an IND application accepted in the first quarter of 2024.
- *Other modalities (Immunotherapies and Targeted Therapies):*
  - ***A167 (Tagitanlimab Injection)***, our PD-L1 mAb, which is expected to be the backbone of our immunotherapy franchise;
  - ***A140***, a biosimilar of EGFR mAb cetuximab, which has the potential to be the first cetuximab biosimilar approved in China;
  - ***A400***, a novel second-generation selective RET inhibitor, which is positioned to be the first domestically developed second-generation selective RET inhibitor for NSCLC, MTC and other solid tumors with a high prevalence of RET alterations; and
  - ***A296***, a novel second-generation small molecule stimulator of interferon genes (STING) agonist with a differentiating molecular design, which has the potential to invigorate anti-tumor immunity in "cold" tumors that are unresponsive to existing immune checkpoint inhibitors and is positioned as a combination therapy to be used with our other immunotherapy assets.

SKB264 (MK-2870) (Sacituzumab Tirumotecan for Injection)

SKB264, one of our Core Products, is a novel human trophoblast cell-surface antigen 2 (TROP2) ADC targeting advanced solid tumors. TROP2 is frequently overexpressed across a broad spectrum of cancers, especially in highly prevalent or hard-to-treat cancers such as BC, NSCLC, and many other solid tumor types. Positioned to be the first domestically developed TROP2 ADC in China and the second TROP2 ADC globally to be commercialized, SKB264 utilizes a differentiated drug design to improve ADC stability and maintain ADC bioactivity, thus enhancing its targeting ability and reducing its off-target and on-target off-tumor toxicity, potentially leading to a broader therapeutic window.

SKB264 is developed with a novel linker to conjugate the payload, a belotecan-derivative topoisomerase I inhibitor with a drug-to-antibody-ratio (DAR) of 7.4. The hydrolytically linker permits both extracellular pH-sensitive cleavage and intracellular enzymatic cleavage to release the membrane permeable payload enabling the "bystander effect". The design was to achieve a more effective balance between stability in circulation and release of the ADC payload in tumor cells.

In May 2022, we granted MSD exclusive development and commercialization rights for SKB264 (MK-2870) outside Greater China. We retain the right to develop and commercialize SKB264 and other TROP2 ADCs within Greater China. Based on such retained rights, we will continue to advance our clinical development plan for SKB264 in Greater China.

We are actively advancing a multi-strategy clinical development plan to explore SKB264's potential as a monotherapy and combination therapies to treat various types of advanced solid tumors:

TNBC. SKB264 was granted Breakthrough Therapy Designation by the National Medical Products Administration (NMPA) for locally advanced or metastatic triple-negative breast cancer (TNBC) in July 2022. We achieved first-patient-in for a pivotal phase 3 trial for advanced TNBC in China in August 2022 and completed patient enrollment. In August 2023, we announced that the randomized, controlled, open-label, multi-center phase 3 clinical trial of SKB264 versus investigator selected regimens in patients with unresectable locally advanced, recurrent or metastatic TNBC who have failed second-line or above prior standard of care met the primary endpoint of progression-free survival as assessed by the independent review committee. Based on the results from the interim analysis, the Company submitted the NDA for SKB264 to the Center for Drug Evaluation (CDE) of the NMPA of China. The NDA was included in the priority review and approval process of the CDE in November 2023 and the NDA was accepted in December 2023. We expect to receive marketing approval for 3L+ advanced TNBC in 2024.

In March 2024, SKB264 was granted Breakthrough Therapy Designation by the NMPA for first-line treatment of unresectable locally advanced, recurrent or metastatic PD-1 ligand 1 (PD-L1) negative TNBC. We have initiated a phase 3 pivotal trial for 1L advanced TNBC accordingly.

Our updated efficacy and safety results from a phase 2 expansion cohort in patients with previously treated metastatic TNBC presented at the 2023 San Antonio Breast Cancer Symposium (SABCS) showed that SKB264 demonstrated an objective response rate (ORR) of 42.4% and disease control rate (DCR) of 76.3%. The median progression-free survival (mPFS) was 5.7 months. Median overall survival (OS) was 16.8 months. In the subset of patients with high TROP2 expression (H-score ≥200, n=32), ORR was 53.1%, median PFS was 5.8 months and median OS was not reached. The most common ≥ Grade 3 treatment-related adverse events (TRAEs) (≥10%) were neutrophil count decreased, white blood cell count decreased, anemia and platelet count decreased. TRAEs were mainly hematologic toxicity, which was clinically manageable; no interstitial lung disease or diarrhea of Grade 3 or higher was observed. No deaths occurred in this cohort due to TRAE.

HR+/HER2- BC. SKB264 was granted Breakthrough Therapy Designation by the NMPA for locally advanced or metastatic hormone receptor positive (HR+) and human epidermal growth factor receptor 2-negative (HER2-) BC who have previously received at least 2L systematic chemotherapy in June 2023. We initiated a registrational phase 3 study for 2L+ HR+/HER2- metastatic BC. We obtained the approval from the CDE of the NMPA in September 2023 for the IND application for SKB264 with or without KL-A167 (anti-PD-L1 inhibitor) in patients with unresectable locally advanced, recurrent or metastatic HR+/HER2- BC. We plan to initiate a pivotal trial for 1L HR+/HER2- BC after failure with endocrine therapy (ET) in 2024.

Data from a phase 1/2 clinical trial evaluating SKB264 for previously-treated patients with HR+/HER2- BC was presented at the 2023 European Society for Medical Oncology (ESMO) Congress on October 22, 2023 and showed that SKB264 had an ORR of 36.8%, DCR of 89.5% and median PFS of 11.1 months. The most common ≥ Grade 3 TRAEs (≥5%) were neutrophil count decreased, white blood cell (WBC) count decreased, anemia, platelet count decreased and Gamma-glutamyl Transferase (GGT) increase. No neuropathy or drug-related interstitial lung disease/pneumonitis were reported. There were no TRAEs leading to treatment discontinuation or death in this cohort.

EGFR-mutant NSCLC. SKB264 was granted Breakthrough Therapy Designation by the NMPA for epidermal growth factor receptor (EGFR)- tyrosine kinase inhibitor (TKI) failed EGFR-mutant locally advanced or metastatic NSCLC in January 2023. We achieved first-patient-in for a pivotal phase 3 trial for EGFR-mutant locally advanced or metastatic non-squamous NSCLC (TKI failure) in China in July 2023. We commenced a registrational study for 3L EGFR-mutant locally advanced or metastatic NSCLC in the second half of 2023, and plan to submit an NDA in China in 2024.

Data from SKB264's phase 2 expansion cohort of heavily pretreated advanced NSCLC patients presented at the 2023 American Society of Clinical Oncology (ASCO) Annual Meeting showed that for the subgroup of patients with TKI-resistant EGFR-mutant NSCLC (among which 50% also failed at least one line of chemotherapy), SKB264 demonstrated an ORR of 60.0%, DCR of 100% and median PFS of 11.1 months.

EGFR-wild type NSCLC. We received IND approval in March 2022 from the NMPA. We are conducting a phase 2 trial in combination with A167 with or without chemotherapy for EGFR-wild type advanced NSCLC in China. We expect to initiate a pivotal trial for 1L EGFR-wild type NSCLC in 2024.

2023 ASCO data for the subgroup of patients with EGFR wild-type (who previously received median 2 lines of therapy including anti-PD-(L)1 therapy) showed that SKB264 demonstrated an ORR of 26%, DCR of 89% and a median PFS of 5.3 months.

For NSCLC, the most common Grade ≥3 TRAEs (≥5%) were neutrophil count decreased, anemia, WBC decreased, stomatitis, rash, and lymphocyte count decreased. No discontinuation or death due to TRAEs occurred. No neurotoxicity or drug-related interstitial lung disease/pneumonitis was observed.

Multiple tumors. We are collaborating with MSD on a global phase 2 basket study for SKB264 (MK-2870) as monotherapy or in combination for multiple indications and have obtained interim efficacy and safety data. Patient enrollment is ongoing.

SKB264 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

A166 (Trastuzumab Botidotin for Injection)

A166, another of our Core Products, is a differentiated HER2 ADC in NDA registration stage to treat advanced HER2+ solid tumors. It is positioned to target multiple cancer indications with high prevalence and medical needs, including BC and GI cancers, with the potential to be one of the first domestically developed ADCs for HER2+ BC in China.

A166 is armed with a highly cytotoxic payload that can exert potent tumor cell killing at a low drug-to-antibody ratio (DAR). Coupled with a uniformly low DAR, achieved via our site-specific conjugation technology, this design potentially ensures the safety of A166 by enhancing ADC stability and reducing premature payload release in blood circulation, while maintaining robust anti-tumor potency.

Configured with a potent cytotoxic payload, clinically proven mAb and site-specific conjugation technology, A166 demonstrated promising efficacy in heavily pretreated advanced HER2+ BC patients with an ORR of 73.9% at recommended phase 2 dose (RP2D) and in advanced HER2+ GC patients with an ORR of 31.3%, based on results from our phase 1 dose expansion study and preliminary results from our ongoing phase 1b trial in China. A166 also showed a differentiated safety profile from that of Kadcyla®, Enhertu® and Aidixi®, the only three United States Food and Drug Administration (FDA) and/or NMPA-approved HER2 ADCs as at December 31, 2023, with lower incidence of haematological, GI and lung toxicities in non-head-to-head, cross-trial comparisons. Although A166 demonstrated higher incidences of ocular and peripheral nerve-related toxicities, they were reversible and generally manageable[9]. This suggests the potential of A166 to widen the treatment options available to advanced HER2+ solid tumor patients with different susceptibility to adverse drug reactions.

Notes：

(9) Based on common drug adverse reactions and laboratory abnormalities (≥10% all grades or ≥2% grades 3 or 4) for A166, Kadcyla®, Enhertu®, or Aidixi®. Sources: Kadcyla®: Kadcyla®'s drug label; Enhertu®: Enhertu®'s drug label; Aidixi®: Aidixi®'s drug label.

We have designed a multi-indication clinical development plan to advance A166 in China. A166 has met the primary endpoints of its pivotal phase 2 trial for 3L+ advanced HER2+ BC based on results from the primary analysis, which we used to submit an NDA to the NMPA in May 2023. In addition to 3L+ advanced HER2+ BC, we are exploring the therapeutic potential of A166 compared with T-DM1 in an ongoing confirmatory phase 3 trial in China for 2L+ advanced HER2+ BC which we initiated in June 2023, as well as in multiple ongoing phase 1b clinical trials in China for other advanced HER2+ solid tumors, including GC and CRC. We expect to receive marketing approval for 3L advanced HER2+ BC in the second half of 2024 or the first half of 2025.

A166 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

SKB315 (MK-1200)

SKB315 is a novel CLDN18.2 ADC designed for treating advanced solid tumors. Configured with a proprietary, in-house developed humanized CLDN18.2 mAb and a differentiated payload-linker design, SKB315 is among the tier of fastest-advancing ADCs globally with the same target.

CLDN18.2 is highly expressed in prevalent and lethal cancers with limited effective treatments such as GC and pancreatic cancer, while its normal expression is restricted to gastric mucosa. This selective expression makes CLDN18.2 a promising drug target, highlighted by the positive clinical results of zolbetuximab, a CLDN18.2 mAb in phase 3 stage as of 2023. Compared with mAbs, targeting CLDN18.2 ADC is potentially a more efficacious therapeutic strategy as ADCs exert anti-tumor effects primarily via cytotoxic payloads and bystander effect, which may overcome low or heterogeneous CLDN18.2 expression in tumors that traditionally limits the efficacy of mAbs. SKB315 demonstrated encouraging preclinical efficacy and safety in various vivo tumor models with heterogeneous CLDN18.2 expression, indicating its promising therapeutic potential.

In June 2022, we entered into a license and collaboration agreement with MSD, under which we granted MSD exclusive global development and commercialization rights for SKB315. Pursuant to this agreement, we are carrying out certain activities in support of SKB315's clinical development, including an ongoing phase 1a clinical trial of SKB315 in patients with advanced solid tumors in China. A global phase 1/2 clinical study is in progress.

SKB315 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

SKB410 (MK-3120)

SKB410 is a novel Nectin-4 ADC targeting advanced solid tumors. Utilizing a differentiated payload-linker strategy, SKB410 is equipped with a moderately toxic payload that potentially reduces toxicities, and in particular, a hydrophilic linker with balanced stability to improve pharmacokinetics (PK) profile and accelerate payload release in the tumor site for better efficacy. In preclinical studies, SKB410 has shown improved therapeutic window and safety profile compared to the published data of an FDA approved ADC targeting the same antigen.

In December 2022, we entered into an exclusive license and collaboration agreement with MSD to develop certain preclinical ADC assets including SKB410. We are working in collaboration with MSD on the early clinical development of SKB410.

We received IND approval from the NMPA for SKB410 in February 2023, and initiated the phase 1a clinical trials.

SKB410 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

A167 (Tagitanlimab Injection)

A167 is a humanized mAb that targets PD-L1, an important immune checkpoint protein. Targeting PD-L1 and its receptor PD-1 has become the cornerstone of cancer immunotherapy, with PD-(L)1 mAbs now widely recognised as a front-line cancer immunotherapy agent. To further elicit the anti-tumor activity of PD-(L)1 mAbs, the market has witnessed encouraging clinical development advancement of PD-(L)1 mAbs-based combination strategies in recent years, with an aim to achieve synergistic efficacies, boost response rates, overcome heterogeneity across patients, and relieve treatment resistance.

We have developed A167 as the backbone of our immunotherapy franchise, not only as a monotherapy but, more importantly, to be used in combination with our ADCs and other oncology assets.

Building on its robust efficacy and safety results in multiple monotherapy trials for advanced solid tumors such as recurrent or metastatic nasopharyngeal carcinoma (RM-NPC), A167 in combination with SKB264 demonstrated encouraging preliminary efficacy in an ongoing phase 2 trial conducted in China. A167's promising clinical results underscore its therapeutic potential as monotherapy and combination therapies.

We filed an NDA with the NMPA in November 2021 and expect to receive approval in the second half of 2024 to market A167 as a 3L+ treatment for RM-NPC. We have also completed patient enrollment for a phase 3 trial of A167 in combination with chemotherapy as a 1L treatment for RM-NPC. Moreover, we are actively exploring A167's potential as an early-line treatment in combination with our ADC assets to maximize the clinical value of our oncology franchise, beginning with two ongoing phase 2 trials – a phase 2 trial of SKB264 in combination with A167 with or without chemotherapy, as a 1L treatment for EGFR-wild type advanced NSCLC and a phase 2 trial of SKB264 with or without A167 as a 1L treatment for advanced TNBC and in patients with unresectable locally advanced, recurrent or metastatic HR+/HER2- BC.

In August 2018, we granted Harbour BioMed an exclusive, royalty-bearing, sub-licensable license to develop, manufacture and commercialize A167 outside Greater China.

A167 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

A140

A140 is a biosimilar of EGFR mAb cetuximab providing increased accessibility and affordability to an underserved patient population for a widely used therapeutic targeting a key pathway in many cancers, starting with rat sarcoma virus (RAS) wild-type metastatic colorectal cancer (mCRC), recurrent and/or metastatic head and neck squamous cell carcinoma (RM-HNSCC) and locally advanced head and neck squamous cell carcinoma (LA-HNSCC).

We filed an NDA for the use of A140 for the treatment of RAS wild-type mCRC and HNSCC which was accepted by the NMPA in September 2023, the first NDA filed for a cetuximab biosimilar candidate in China.

A140 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

A400

A400, a second-generation selective rearranged during transfection (RET) inhibitor, is positioned to be the first domestically developed second-generation selective RET inhibitor for treating RET+ solid tumors in China.

RET alterations have been reported to be a major oncogenic driver in about 2% of all cancers, most notably in NSCLC and medullary thyroid cancer (MTC), the first two indications that A400 is designed to target. Although two first-generation selective RET inhibitors were approved in China for RET+ solid tumors as at December 31, 2023, their therapeutic benefits are limited, in part, by acquired RET drug-resistant mutations and safety issues such as hypertension and hematological toxicity, underscoring the need for novel selective RET inhibitors with improved safety and better efficacy against drug resistant mutations. A400 is designed with a novel proprietary molecular structure to address selective RET inhibitor resistance while maintaining target selectivity, efficacy and safety with reduced manufacturing cost and difficulty.

In March 2021, we granted Ellipses, a U.K.-based international drug development company, an exclusive license to develop, manufacture and commercialize A400 outside Greater China and certain Asian countries.

We are rapidly progressing the clinical development of A400 in China and globally. For RET+NSCLC, based on the promising preliminary results of A400 in both 1L and 2L+ advanced RET+ NSCLC patients, we completed CDE clinical consultation and received approval to commence pivotal trials. Patient enrollment is in progress and we plan to submit an NDA for RET+ NSCLC in 2024. An IND application for A400 was approved by FDA in June 2022. In November 2023, A400 was granted Orphan Drug Designation by the FDA for the treatment of RET fusion-positive solid tumors. In March 2024, A400 was granted Fast Track designation by the FDA for the treatment of RET fusion-positive NSCLC.

Data from the phase 1 clinical study of A400 was shared in the form of an oral presentation at a session of the 2023 ASCO Annual Meeting on June 5, 2023. Building upon its strong potency against diverse RET alterations and central nervous system penetration demonstrated in preclinical studies, A400 showed promising anti-tumor efficacy in patients with advanced RET+ solid tumors, highlighted by ORR of 80.8% and 69.7% for 1L and 2L+ advanced RET+ NSCLC, respectively, based on results from its ongoing phase 1/2 trial. In both cases, DCR of over 96% were reported.

A400 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

A296

A296 is a novel second-generation small molecule stimulator of interferon genes (STING) agonist with a differentiating molecular design, has the potential to invigorate anti-tumor immunity in “cold” tumors that are unresponsive to existing immune checkpoint inhibitors and is positioned as a combination therapy to be used with our other immunotherapy assets.

We received IND approval from the NMPA for phase 1 trial to evaluate A296 in advanced solid tumor patients. We initiated the phase 1 trial in China and the trial is making steady progress.

A296 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

Non-oncology franchise

Our non-oncology franchise covers a range of diseases and conditions with large patient populations and medical needs, with a primary focus on immune-mediated diseases, including rheumatoid arthritis (RA) and alopecia areata (AA), as well as other indications ranging from chronic kidney disease (CKD)-associated pruritus (CKD-aP), moderate-to-severe asthma and thromboembolic disorders.

A223

Our non-oncology franchise is headlined by A223, potentially one of the first domestically developed small molecule Janus kinase 1 or 2 (JAK1/2) inhibitors for multiple autoimmune diseases with large patient populations in China, such as AA and RA.

Configured with a structural design that retains target selectivity with optimized pharmacological properties, A223 has demonstrated an encouraging safety profile in three completed trials and two ongoing trials, where most treatment-emergent adverse events were mild or moderate with no incidence of black box warning-related safety issues commonly reported by approved JAK inhibitors. Based on preliminary clinical data from its phase 2 trial, A223 demonstrated promising anti-rheumatic efficacy in moderate-to-severe RA patients, with A223 2 mg achieving substantial and statistically significant American College of Rheumatology 20 response criteria (ACR20) difference of 35.1% (63.6% vs. 28.6%) and American College of Rheumatology 50 response criteria (ACR50) difference of 33.7% (39.4% vs. 5.7%) at week 12 compared with placebo.

We completed patient enrollment for phase 2 trials in patients with moderate-to-severe RA. We have also expanded A223's target indication to AA, a common autoimmune disease of the hair follicle, with Olumiant® and Litfulo® being the only two systemic treatments administered orally for severe AA approved by the FDA and the only two disease-specific treatment administered orally for the same indication approved in China as at December 31, 2023. We are conducting a phase 2 trial in patients with severe AA in China.

A223 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

A277

A277 is potentially one of the first peripherally-restricted kappa-opioid receptor (KOR) agonists for treating CKD-aP in China, a distressing chronic itching condition with a large and underserved patient population. As of December 31, 2023, there were no approved treatments specifically targeting CKD-aP in China.

A277 is a novel peripherally-restricted KOR agonist that selectively activates KORs, but not mu opioid receptors (MORs) or other opioid receptors. A277 is specifically designed to restrict its entry into the CNS and limit its action selectively to KORs on sensory nerves outside the brain and on certain immune cells, thereby potentially minimizing opioid-induced drug dependence, respiratory depression and constipation, as well as dysphoria and hallucination associated with centrally-acting KOR agonists. A277 demonstrated potential efficacy and good safety in a completed phase 1b clinical trial, where it exhibited potential in reducing the pruritus numerical rating scale, a widely adopted standard for evaluating itch intensity, in maintenance hemodialysis patients with moderate-to-severe CKD-aP, with no incidence of opioid-induced drug dependence, respiratory depression and constipation. These positive clinical results indicate the potential of A277 as a safe and effective therapeutic option for CKD-aP.

We have commenced a phase 2 trial in maintenance hemodialysis patients with moderate-to-severe pruritus in China.

A277 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

SKB378

SKB378 is potentially one of the first domestically developed thymic stromal lymphopoietin (TSLP) mAbs in China for treating patients with moderate-to-severe asthma. SKB378 targets TSLP, an important cytokine implicated in the pathophysiology of asthma as a key orchestrator of the underlying inflammation. Asthma can be broadly classified into two clinical inflammatory phenotypes, eosinophilic and non-eosinophilic, which are respectively characterized by type 2 and non-type 2 inflammation with distinct immune response patterns. Given the major role of TSLP in both types of asthma based on recent published studies, targeting TSLP represents a promising strategy for treating asthma without phenotypic limitations.

Currently, the approved treatment options of moderate-to-severe asthma in China are mAbs that target type 2 inflammatory pathways and are thus ineffective for patients with non-eosinophilic asthma, which account for approximately 50% of moderate-to-severe asthma cases. Tezepelumab, a TSLP mAb that achieved effective asthma control and exacerbation reduction regardless of patients' non-eosinophilic phenotypes, is the only anti-TSLP treatment approved in the U.S. for severe asthma.

We received IND approval from the NMPA in February 2022. We have completed phase 1 clinical trial in healthy subjects in China and are making steady progress.

SKB378 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

SKB336

SKB336 is a novel Factor XI (FXI)/Factor Xia (FXIa) mAb designed as an anticoagulant for preventing and treating thromboembolic disorders, starting with venous thromboembolism (VTE) after total knee arthroplasty (TKA). Thromboembolic disorders are prevalent and potentially fatal conditions in which abnormally formed blood clots block blood vessels. The current mainstay anticoagulant therapies put patients at increased risks of severe and potentially life-threatening bleeding complications as their targets are also required for normal coagulation, leaving a need for novel effective anticoagulation agents with limited risk of bleeding. As of December 31, 2023, there were no anti-FXI/FXIa drugs approved by the NMPA. According to Frost & Sullivan, SKB336 is the first domestically developed anti-FXI/FXIa drug to enter clinical stage in China.

FXI/FXIa have emerged as a promising anticoagulation target as these factors are not essential for initiating normal blood coagulation, but play a central role in promoting thrombosis, which refers to abnormal coagulation that leads to blood clots developing in a blood vessel. In published preclinical studies, FXI/FXIa deficiencies led to clot instability and prevented the occlusion of blood vessels, suggesting that targeting FXI/FXIa is potentially a safe and effective strategy for preventing and treating thromboembolic disorders, such as VTE after TKA.

We received IND approval from the NMPA in July 2021 for preventing and treating thromboembolic disorders. We have completed phase 1 trial in healthy subjects in China and are making steady progress.

SKB336 MAY NOT ULTIMATELY BE SUCCESSFULLY DEVELOPED AND COMMERCIALIZED.

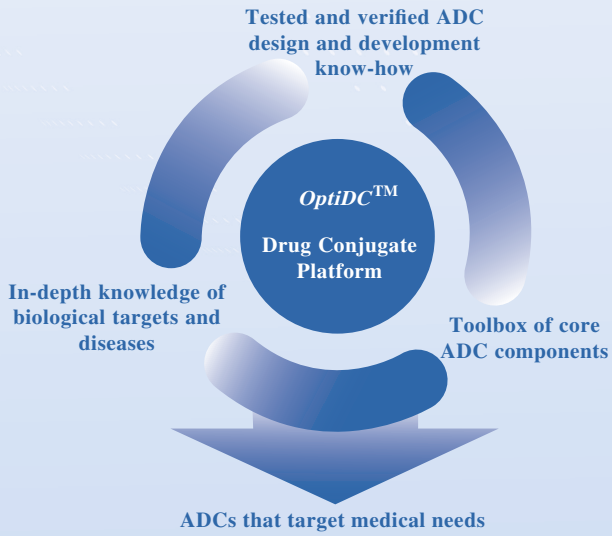
Apart from the above, we will continue to develop novel non-oncology drug candidates to address highly prevalent chronic diseases currently without effective treatments, including autoimmune and metabolic diseases.

OUR TECHNOLOGY PLATFORMS

We have established three core platforms specializing in ADCs, biologics and small molecule technologies that serve as the foundation of our discovery and development of innovative medicines for medical needs in selected disease areas, such as oncology, autoimmune diseases and metabolic diseases. These platforms cover the entire R&D process for different drug modalities and work in tandem to allow cross-functional synergies at crucial stages of drug development.

- ***ADC Platform.*** We are one of the first movers in the development of ADCs, with over a decade of accumulated experience in ADC development. According to Frost & Sullivan, we are one of the first biopharmaceutical companies in China, and one of the few globally, to establish an in-house developed ADC platform, which supports our systematic development of ADCs across their entire lifecycle. Our ADC platform, OptiDC, is supported by three capability pillars – in-depth knowledge of biological targets and diseases, tested and verified ADC design and development know-how, and a toolbox of core ADC components. Through over a decade of development, we have developed a toolbox of core ADC components which gives us the versatility to engineer customized ADCs optimized for different biological targets to address medical needs in a broad range of indications. We have honed our expertise in ADC process development, manufacturing and quality control, which we believe is crucial in bringing our ADCs from bench to bedside. Notably, our ADC platform is tested and verified through preclinical studies and clinical trials with more than 2,000 patients enrolled as at December 31, 2023.

  By leveraging our experience and data from drug discovery, translational medicine, process development and clinical studies over years of implementing our ADC design strategies, we deploy a multi-pronged strategy to advance our ADC platform, including (i) further optimizing our payload/linker technologies to solidify our ADC capabilities; (ii) developing novel ADC designs and structures such as bispecific ADCs, dual-payload ADCs, immunostimulatory ADCs, radionuclide drug conjugates (RDCs); and (iii) developing ADCs with non-cytotoxic payloads to target non-oncology diseases.



- ***Biologics Platform.*** Our extensive biologics technology platform, while complementing our ADC platform, serves as the foundation of our immunotherapy and targeted therapy franchises. This platform is focused on mAbs and bsAbs and possesses end-to-end antibody development capabilities ranging from antibody discovery and optimization to bioprocessing and scale-up manufacturing.

- ***Small Molecule Platform.*** Our small molecule platform is driven by the integration of medicinal chemistry and computer-aided drug design (CADD) technologies, such as molecular docking, pharmacophore modeling, virtual screening and absorption, distribution, metabolism, elimination and toxicity (ADMET) prediction. These capabilities allow us to focus on compound optimization in early-stage research, which help rationalize and accelerate our preclinical drug discovery. We are also exploring state-of-the-art technologies such as proteolysis targeting chimera (PROTAC) to navigate challenging protein targets.

RESEARCH AND DEVELOPMENT

Our in-house R&D capabilities, built on three technology platforms, give us control and visibility over our R&D process, reduces our reliance on CROs and enable us to ensure the quality and efficiency of our drug development programs.

Our R&D team comprises industry veterans with extensive experience of driving drug development programs at leading biopharmaceutical companies. We have a comprehensive in-house R&D engine covering drug discovery, translational medicine, process development and clinical research.

- ***Drug Discovery.*** Our drug discovery team plays a fundamental role in our development of innovative drugs to address medical needs. Our discovery team comprises medicinal chemists, computational chemists, protein scientists, biologists, immunologists and is led by experts with years of experience working at multinational corporations. Through bringing over 10 drug candidates into clinical development, we have accumulated in-depth know-how and streamlined our drug discovery workflows for ADCs, biologics and small molecules. Our research platform supports in-house capabilities covering target validation, mechanism study, candidate design and selection (including computer-aided approaches), with a goal to consistently design and engineer differentiated drug candidates with high clinical values to enrich our pipeline.

- ***Translational Medicine.*** Our translational medicine scientists work closely to facilitate the bridging of our drug discovery and preclinical studies with clinical needs, with an aim to bring differentiated drug candidates to market. Their interdisciplinary research encompasses a wide range of studies from drug metabolism and pharmacokinetics, toxicology and biomarker development, to quantitative and clinical pharmacology. Our translational medicine team plays a key role in improving the success rates, time-efficiency and cost-effectiveness of our clinical trials.

- ***Process Development.*** Our process development team is responsible for developing a quality, scalable, and robust process for our ADC, antibody and small molecule drugs. They have extensive experience in process optimization and scale-up, analytical method development, quality criteria establishment, and technology transfer. We are guided by a quality-by-design concept to scientifically design process performance characteristics, which underlies our consistent, high quality manufacturing of drug products.

- ***Clinical Research.*** We have a robust clinical research team located across our four clinical centers in Beijing, Shanghai, Chengdu and the U.S. Our clinical scientists are highly experienced at formulating clinical development plans, selecting indications, and determining regulatory pathways. Their rich experience in regulatory communication, both in China and overseas, also plays a key role in advancing our clinical development plans towards successful commercialization.

OUR LICENSE AND COLLABORATION ARRANGEMENTS

While we are primarily engaged in in-house drug development, we also believe that an open and collaborative mindset is crucial to the success of our global strategy. Along each step of our drug development plans – from drug discovery to commercialization – we proactively pursue external collaborations, licensing arrangements and other strategic partnerships to create synergies with our pipeline and technology platforms.

Set forth below is a summary of our key license and collaboration agreements:

- ***Collaboration with MSD.*** We have entered into three license and collaboration agreements with MSD to develop multiple ADC assets for cancer treatment. During the Reporting Period, MSD made several payments to us, including (1) a non-refundable upfront payment of US$175.0 million in March 2023 pursuant to an exclusive license and collaboration agreement we entered into with MSD to develop multiple preclinical ADC assets, (2) payments totaling US$30.0 million made upon achieving certain milestones in October 2023 pursuant to our license and collaboration agreement with MSD to develop, manufacture and commercialize SKB264 (MK-2870), as well as (3) reimbursements for routine R&D expenses incurred for our license and collaboration projects.

In May 2022, we granted MSD an exclusive, royalty-bearing and sub-licensable license to develop, use, manufacture and commercialize SKB264 (also known as "MK2870" in MSD's portfolio). We retain the right to develop and commercialize SKB264 within Greater China. In 2023, MSD initiated three pivotal phase 3 clinical trials, evaluating SKB264 (MK-2870) as a monotherapy for the treatment of previously treated advanced or metastatic NSCLC with EGFR mutations or other genomic alterations, as a monotherapy for the treatment of endometrial carcinoma (EC) who have received prior platinum-based chemotherapy and immunotherapy, and in combination with pembrolizumab for metastatic NSCLC expressing programmed death ligand 1 (PD-L1) greater than or equal to 50 percent. Such clinical trials for NSCLC and EC have triggered payment of the relevant clinical milestones in the aggregate amount of US$75.0 million.

In June 2022, we granted MSD an exclusive, royalty-bearing, sub-licensable license to develop, use, manufacture and commercialize SKB315 globally. We are carrying out certain activities in support of SKB315's clinical development, including an ongoing phase 1a clinical trial of SKB315 in patients with advanced solid tumors in China. A global phase 1/2 clinical study is in progress.

In December 2022, we entered into an exclusive license and collaboration agreement with MSD to develop up to seven preclinical ADC assets. Under this agreement, we granted MSD exclusive global licenses to research, develop, manufacture and commercialize multiple ADC assets and exclusive options to obtain additional exclusive licenses to certain other ADC assets. We retain the right to research, develop, manufacture and commercialize certain licensed and option ADCs for China, Hong Kong and Macau. In October 2023, the Company received a formal notice from MSD that MSD made a decision (1) to terminate an exclusive license the Company granted to MSD to develop, manufacture and commercialize a preclinical ADC asset, and (2) not to exercise an exclusive option the Company granted to MSD to obtain an exclusive license to another preclinical ADC asset. The Group is not obliged to return any payments received or make any payments to MSD in respect of such termination of the collaboration on the aforementioned two ADC assets.

- ***Collaboration with Ellipses.*** In March 2021, we entered into a collaboration and license agreement with Ellipses, under which we granted Ellipses an exclusive, revenue sharing, royalty-bearing, sub-licensable license to develop, manufacture and commercialize A400. A400 is known as EP0031 by Ellipses. The license includes all countries excluding Greater China, North Korea, South Korea, Singapore, Malaysia and Thailand.

  An IND application for A400/EP0031 was approved by the FDA in June 2022. Clinical trial applications of A400/EP0031 were approved by the Spanish agency, French agency and UK agency in February, August and September 2023, respectively. As of December 31, 2023, a total of 17 clinical sites in the United States and Europe were set up for A400/EP0031. In November 2023, A400/EP0031 was granted Orphan Drug Designation by the FDA for the treatment of RET fusion-positive solid tumors. In March 2024, A400/EP0031 was granted Fast Track designation by the FDA for the treatment of RET-fusion positive NSCLC. We have received a milestone payment during the Reporting Period.

- ***License agreement with the Affiliated Hospital of SMU.*** In September 2023, the Company entered into an exclusive license agreement with the Affiliated Hospital of SMU for TBM-001, an innovative RDC drug independently developed by the Department of Nuclear Medicine of the Affiliated Hospital of SMU and intended to be used for early diagnosis of bone tumor metastasis and precision targeted therapy. Under the license agreement, the Affiliated Hospital of SMU granted the Company an exclusive license to research, develop and commercialize TBM-001 globally and is in return entitled to receive certain economic interests such as upfront payment, milestone payments, commission on net sales after launch of the product and revenue sharing of third-party sub-licensing, including upfront payment and milestone payments in the aggregate amount of RMB38.5 million.

- ***License agreement with Multitude Therapeutics.*** In October 2023, we entered into a license agreement with Multitude Therapeutics. Under the license agreement, the Company has granted Multitude Therapeutics an exclusive right to its payload-linker to research, develop and commercialize a first-in-class (FIC) target ADC and is in return entitled to receive certain economic interests such as milestone payments and running royalties on net sales after launch of the product. During the Reporting Period, we received certain payments. The Company has also agreed to supply the product to Multitude Therapeutics at an agreed price.

MANUFACTURING AND QUALITY CONTROL

We believe a well-established manufacturing and quality control system serves as the cornerstone of our future commercialization and underlies our ability to enhance our R&D capabilities and advance clinical development. Our manufacturing and quality control system is capable of supporting the production of antibodies, ADCs and their key drug substances. This system helps ensure the efficiency and cost-effectiveness of our clinical trials, and facilitates a smooth transition into commercial manufacturing.

- ***Manufacturing.*** Our main manufacturing site in Chengdu is one of the few facilities in China with cGMP-compliant, end-to-end capabilities covering the entire development lifecycle of ADCs, from cell culture and purification, for antibody production, syntheses of payloads and linkers, ADC conjugation to formulation, fill and finish. Our ADC formulation center has now reached an annual production capacity of 50 batches (or 1.4 million vials) of freeze-dried ADCs or 100 batches (or 2 million vials) of injectable ADCs. Our antibody formulation facilities are equipped with an annual production capacity to produce 60 batches (or 750,000 vials) of freeze-dried formulation or 100 batches (or 2.6 million vials) of injectable solutions.

- ***Quality Control.*** We operate a comprehensive quality control system which extends across all key stages of the R&D, manufacturing and commercialization processes. This system is established and refined in accordance with the rigorous regulations and guidelines in China, the U.S. and Europe. We pay close attention to the evolving cGMP standards and regulatory developments in these target markets and update our internal procedures accordingly, striving for the highest international standards in patient safety and regulatory compliance. In October 2023, A166 became the first ADC project to have successfully passed the on-site combined GMP compliance inspection for its pharmaceutical development and production site, and notification of GMP compliance was issued by the local authority in November 2023. Furthermore, our quality expert team are actively involved in the discussion and promulgation of regulations and guidelines in China, such as the Chinese GMP regulatory guidelines and the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) guidelines, which attests to our recognized expertise in the respective fields. For example, we took an active role in the drafting of the "Biological Products (mAb)" section of the Chinese GMP Implementation Guide (Re-issued) (中國GMP實施指南(再版)《生物製品(單克隆抗體)》部分) in 2022. As a major participant, the Company took part in discussions on various domestic ADC technical guidelines and standards, such as the overview on ADCs in the Chinese Pharmacopoeia (《中國藥典》).

COMMERCIALIZATION

We are well-positioned to develop our commercialization infrastructure and market access, leveraging our Controlling Shareholder Kelun Pharmaceutical's decades-long experience, industry connections and extensive network. Guided by Kelun Pharmaceutical's leading industry position, strong brand image and profound resources as one of China's largest and most established pharmaceutical companies, we have developed our own commercialization team and network, with an initial focus on Class III hospitals and leading physicians across China's extensive local markets. We will also continue to refine our commercialization strategies for each late-stage drug candidate, first prioritizing therapeutic areas with medical needs in China, such as BC, NSCLC and GI cancers, while offering synergistic treatment options enabled by our diverse pipeline to optimize patient outcome.

Based on the expected approval timeline of each late-stage project in our pipeline, we expect to receive marketing approval from the NMPA for A167 (PD-L1 mAb) (3L+) in the second half of 2024. Subject to regulatory communications and marketing approval, we expect to launch our Core Products, SKB264 and A166, and A140 in the China market in the second half of 2024 or the first half of 2025, respectively. In anticipation of these upcoming milestones, we are actively recruiting talent with a strong background in oncology, especially in BC, NSCLC, GI cancers and NPC, our lead indications for these late-stage assets. We have established a departmental structure within the Company, consisting of various departments such as Marketing, Access and Commerce, Medical Affairs, Sales, and Strategic Planning and Commercial Excellence, for which we are actively recruiting. We have set up a fully-fledged commercialization team to prepare and complete the marketing and commercialization of our strategic products. The commercialization team is responsible for overseeing and coordinating pre-marketing preparation and commercialization, laying the groundwork for rapid commercial-scale distribution upon these anticipated NDA approvals by the NMPA. Globally, we will continue to pursue a flexible strategy to capture the commercial value in major international markets, through forging synergistic license and collaboration opportunities worldwide.

AWARDS AND RECOGNITION

In April 2023, the Hurun Research Institute released the 2023 Global Unicorn Index according to which there were 316 unicorn enterprises in China, ranking second in the world. The Company was one of the new unicorn enterprises to receive such recognition.

In September 2023, at the China International Fair for Trade in Services, the Company was recognised as the "Science and Technology Innovation Service Demonstration Case" and was selected for the "Ten Year Achievement Exhibition". The Company was also selected as a new economy demonstration enterprise in Sichuan Province for 2023.

In October 2023, the Company passed the national review for the renewal of its High and New Technology Enterprise accreditation.

In November 2023, it was announced that the initial public offering of the Company was awarded "Best IPO of the Year in Asia and Hong Kong SAR" at the FinanceAsia Achievement Awards 2023.

In December 2023, the Company was awarded the 2023 Most Innovative Value Award at the the 6th CLS Annual Investment Conference of 2023.

II. FINANCIAL REVIEW

Overview

The following discussion is based on, and should be read in conjunction with, the financial statements and the notes included elsewhere in this Annual Report.

Revenue

During the Reporting Period, our revenue consisted of (i) revenue from our license and collaboration agreements (see "Our License and Collaboration Arrangements" above in this Annual Report for details); and (ii) revenue from the research and development services. The following table sets forth the components of our revenue in absolute amounts for the period indicated:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Revenue from license and collaboration agreements	**1,531,699**	785,902
Revenue from provision of research and development service	**8,794**	18,031
	1,540,493	803,933

The Group's revenue for the year ended December 31, 2023 was RMB1,540.5 million, representing an increase of 91.6% compared to RMB803.9 million for the year ended December 31, 2022. The increase is mainly attributable to the revenue from the license and collaboration agreement we entered into with MSD to develop up to seven preclinical ADC assets for the treatment of cancer.

Cost of Sales

During the Reporting Period, our cost of sales was primarily related to the R&D activities we conducted in accordance with our license and collaboration agreements, and the R&D services we provided to Kelun Group and other third parties. Our cost of sales primarily consisted of (i) trial and testing expenses, primarily in relation to the engagement of CROs, clinical trial sites, principal investigators and other service providers; (ii) project cooperation expenses, being the expenses incurred in our license and collaboration arrangements, primarily payments to other third parties; (iii) employee salaries and benefits for R&D staff; (iv) tax and surcharge; (v) costs of raw materials and other consumables; (vi) depreciation and amortization expenses in connection with the machinery and equipment used; and (vii) others, including office expenses and other miscellaneous expenses.

The following table sets forth a breakdown of our cost of sales in absolute amounts for the period indicated.

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Staff costs	**107,778**	69,560
Trial and testing expenses	**469,846**	157,907
Project cooperation expenses	**92,726**	–
Raw materials	**38,477**	22,123
Depreciation and amortization expenses	**15,125**	9,603
Tax and surcharge	**32,078**	1,962
Others	**25,278**	15,673
Total	**781,308**	276,828

The Group's cost of sales for the year ended December 31, 2023 was RMB781.3 million, representing an increase of 182.2% compared to RMB276.8 million for the year ended December 31, 2022. The increase is mainly attributable to the license and collaboration agreements we entered into, pursuant to which we carried out more R&D activities with our collaboration partners.

Gross Profit and Gross Profit Margin

Gross profit represents revenue less cost of sales. Gross profit margin represents gross profit as a percentage of revenue. As a result of the aforementioned factors, the gross profit of the Group increased by 44.0% from RMB527.1 million for the year ended December 31, 2022 to RMB759.2 million for the year ended December 31, 2023.

Our gross profit margin is calculated as gross profit divided by revenue. Gross profit margin embedded in each license and collaboration agreement varies. The gross profit margin of the Group decreased from 65.6% for the year ended December 31, 2022 to 49.3% for the year ended December 31, 2023.

Other Net Income/Expenses

During the Reporting Period, our other net income or expenses primarily consisted of (i) interest income from bank deposits; (ii) net foreign exchange gains or losses which primarily reflected the increased or decreased value of assets or liabilities denominated in foreign currencies we hold resulting from fluctuations in exchange rate; (iii) net realized and unrealized gain on financial assets measured at fair value through profit or loss (FVPL); (iv) government grants, mainly representing government subsidies from state and local government authorities in relation to our R&D activities and construction of our R&D and manufacturing facilities, which were one-off in nature and may vary from period to period; (v) interest income from financial assets measured at amortized cost; (vi) net gains or losses on disposal of property, plant and equipment; and (vii) others.

The Group's other net income for the year ended December 31, 2023 was RMB89.8 million, representing an increase of RMB94.2 million compared to RMB-4.4 million for the year ended December 31, 2022, mainly due to an increase in the interest income from bank deposits and financial assets, and an increase in the net foreign exchange gains.

Administrative Expenses

During the Reporting Period, our administrative expenses primarily consisted of (i) staff costs, representing employee salaries and benefits, including the grant of restricted share units, for our administrative personnel; (ii) listing expenses incurred in connection with the Global Offering; (iii) depreciation and amortization expenses mainly associated with our office and equipment for administrative purposes; (iv) office and travel expenses in relation to our general operations; (v) consulting service fees paid to agents, independent financial advisor and other professional service providers in the ordinary course of our business; (vi) maintenance and repair expenses for office and equipment; and (vii) other miscellaneous expenses.

The following table sets forth a breakdown of our administrative expenses in absolute amounts for the periods indicated.

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Staff costs	**117,982**	62,436
Consulting service fee	**6,730**	6,139
Depreciation and amortization expenses	**9,904**	7,727
Office and travel expenses	**9,323**	3,617
Listing expenses	**27,346**	9,288
Maintenance and repair expenses	**2,413**	2,272
Others	**8,179**	3,824
Total	**181,877**	95,303

The Group's administrative expenses for the year ended December 31, 2023 was RMB181.88 million, representing an increase of 90.8% compared to RMB95.30 million for the year ended December 31, 2022. The increase was primarily attributable to (i) management and administrative personnel costs increased with the development of the Company's business, particularly the expenses related to the Pre-IPO Employee Incentive Scheme; and (ii) the listing expenses incurred in the key stages of the Global Offering.

Research and Development Expenses

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

The following table sets forth a breakdown of our research and development expenses in absolute amounts for the periods indicated.

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Staff costs	**316,917**	267,288
Trial and testing expenses	**527,306**	401,614
Raw materials	**73,618**	80,857
Depreciation, amortization and short-term lease expenses	**44,854**	48,754
Others	**68,271**	47,471
Total	**1,030,966**	845,984

The Group's R&D expenses for the year ended December 31, 2023 was RMB1,030.97 million, representing an increase of 21.9% compared to RMB845.98 million for the year ended December 31, 2022, mainly due to (i) an increase in trial and testing expenses; (ii) an increase in staff costs; and (iii) an increase in other R&D expenses, such as travel expenses, utilities and transportation expenses in relation to our R&D activities. Such increases were primarily due to the increased investments in the on-going R&D projects of the Group.

Finance Costs

During the Reporting Period, our finance costs primarily consisted of (i) interest expenses on financial instruments issued to investors, representing the Shares issued to Series A Investors and Series B Investors; (ii) interest expenses on our borrowings from Kelun Pharmaceutical; (iii) interest expenses on lease liabilities; and (iv) interest expenses on bank loans. We capitalized the interest expenses incurred for the construction in progress.

The Group's finance costs for the year ended December 31, 2023 was RMB84.3 million, representing a decrease of 43.3% compared to RMB148.8 million for the year ended December 31, 2022. The decrease in finance costs was primarily attributable to the significant decrease of interest expenses, which was due to (i) bank loans and other borrowings from Kelun Pharmaceutical were settled in early 2023; and (ii) financial instruments issued to investors had been transferred to equity when the Company was listed on the Stock Exchange on July 11, 2023.

Income Tax

During the Reporting Period, our income tax consisted of withholding tax. For the year ended December 31, 2022 and 2023, we recorded income tax of RMB48.7 million and RMB106.4 million, respectively.

PRC

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

According to the enterprise income tax laws and its relevant regulations, entities that qualified as High and New Technology Enterprise are entitled to a preferential income tax rate of 15%. We obtained our certificate of High and New Technology Enterprise on December 3, 2020 and October 16, 2023 respectively and are entitled to preferential income tax of 15% from 2020 to 2025.

United States

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

Hong Kong

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: not applicable) of the estimated assessable profits for the year. There were no assessable profits generating from the subsidiary incorporated in Hong Kong of the Group during the year ended December 31, 2023.

Loss for the year

As a result of the foregoing, our loss for the Reporting Period decreased by 6.8% from RMB616.1 million for the year ended December 31, 2022 to RMB574.1 million for the year ended December 31, 2023.

Capital Management

As part of our cash management policy, we believe that we can make better use of our cash by utilizing wealth management products to better utilize our idle own funds without interfering with our business operations or capital expenditures. To monitor and control the investment risks associated with our financial assets measured at FVPL and financial assets measured at amortized cost, we have adopted a comprehensive set of internal policies and guidelines to manage our investment in financial assets measured at FVPL and financial assets measured at amortized cost. We make investment decisions based on our estimated capital requirements and our annual budget, taking into account the duration, expected returns and risks of the wealth management product.

Liquidity and Capital Resources

During the Reporting Period, our cash and cash equivalents consisted of cash at bank, net of restricted bank deposits. We had cash and cash equivalents of RMB93.0 million and RMB1,528.8 million as at December 31, 2022 and December 31, 2023, respectively. The increase in our cash and cash equivalents primarily reflected the proceeds raised from Series B Financing, Global offering and the payment received from MSD pursuant to our collaboration.

As at December 31, 2022 and December 31, 2023, the balance of our financial assets measured at FVPL was nil and RMB633.7 million, respectively. As at December 31, 2022 and December 31, 2023, the balance of our financial assets measured at amortized cost was nil and RMB325.9 million, respectively. Such increase was primarily because we used idle own funds to purchase principal guaranteed bank deposit products.

Net Cash Generated from Operating Activities

Our primary uses of cash during the Reporting Period were to fund our research and development activities, the construction of our research and development and manufacturing facilities, and purchase of equipment, machinery and intangible assets. We generated net cash of RMB59.6 million in operating activities for the year ended December 31, 2023, compared to the net cash of RMB270.8 million used in operating activities for the year ended December 31, 2022. The increase in cash was primarily because MSD paid us an upfront payment of US$175.0 million in March 2023 pursuant to the license and collaboration agreement we entered into with MSD to develop up to seven preclinical ADC assets for the treatment of cancer. During the Reporting Period, we financed our operations primarily through payments received in accordance with our license and collaboration agreements and proceeds from our Series B Financing and Global Offering.

Borrowings and Gearing Ratio

As at December 31, 2023, our borrowings were fully repaid.

The gearing ratio is calculated by using interest-bearing borrowings and lease liabilities less cash and cash equivalents, divided by total equity and multiplied by 100%. As at December 31, 2022, the Group was in net deficit and thus, gearing ratio is not applicable. As at December 31, 2023, the Group had more cash and cash equivalents than interest-bearing borrowings and lease liabilities and thus, gearing ratio is not applicable.

Net Current Assets/(Liabilities)

The Group's net current assets, as at December 31, 2023 were RMB1,697.5 million, meanwhile the Group's net current liabilities were RMB3,835.0 million as at December 31, 2022. The significant change of direction was due from the full settlement of bank loans and other borrowing, and the Pre-IPO Investments have been transferred from the Group's current liabilities to equity upon the Listing.

Currency Risk

We are exposed to currency risk primarily through sales and purchases which give rise to cash and cash equivalents and amounts due to related parties that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transactions related. The currencies giving rise to this risk is primarily U.S. dollars. Any significant exchange rate fluctuations of U.S. dollars against RMB may have a financial impact on us. Our management monitors our foreign currency risk exposure and will review and adjust our hedging measures in accordance with our needs.

Pledge of Shares

We do not have any pledging of shares by our Controlling Shareholders.

Significant Investments, Material Acquisitions and Disposals

As at December 31, 2023, we did not hold any significant investments. For the Reporting Period, we did not have material acquisitions or disposals of subsidiaries, associates and joint ventures.

Capital Expenditure

For the year ended December 31, 2023, the Group's total capital expenditure amounted to approximately RMB82.25 million, which was mainly used in purchasing R&D instruments and equipment.

Charge on Assets

As at December 31, 2023, there was no charge on assets of the Group.

Contingent Liabilities

As at December 31, 2023, we did not have any contingent liabilities.

Employees and Remuneration Policies

As at December 31, 2023, we had 1,415 employees in total.

We enter into individual employment contracts with our employees covering matters such as salaries, bonuses, employee benefits, workplace safety, confidentiality obligations, work product assignment clause and grounds for termination. The remuneration package of our employees includes salary and bonus, which are generally determined by their qualifications, performance review, and seniority. We also offer share incentives and promotion opportunities to motivate our employees.

Future Investment Plans and Expected Funding

As of the date of this Annual Report, we are strategically pursuing investment and/or acquisition opportunities to drive our long-term growth, and will make further announcements in accordance with the Listing Rules, where applicable, if any investments and acquisition opportunities materialize.

Events after the Reporting Period

MSD initiated three pivotal phase 3 clinical trials in 2023, evaluating SKB264 (MK-2870) as a monotherapy for the treatment of previously treated advanced or metastatic NSCLC with EGFR mutations or other genomic alterations, as a monotherapy for the treatment of EC who have received prior platinum-based chemotherapy and immunotherapy, and in combination with pembrolizumab for metastatic NSCLC expressing PD-L1 greater than or equal to 50 percent. Such clinical trials for NSCLC and EC have triggered payment of the relevant clinical milestones in the aggregate amount of US$75.0 million and the Company has received the payment from MSD in the first quarter of 2024.

Save as disclosed above, the Company is not aware of any material subsequent events from December 31, 2023 to the date of this Annual Report.

III. PROSPECTS

We intend to capitalize on our competitive strengths by pursuing the following development strategies: (i) advancing our differentiated pipelines targeting indications with significant medical needs; (ii) innovating on optimized payload-linker strategies, novel ADC designs and structures, and expanded application to non-oncology diseases; (iii) enhancing our end-to-end drug development capabilities and advancing towards commercialization; (iv) expanding global footprints and strategic partnerships to maximize the value of our pipelines; and (v) optimizing our operation system to become a leading global biopharmaceutical company.

(i) Advancing our differentiated pipelines targeting indications with significant medical needs

We plan to advance the clinical development of our clinical-stage pipelines, with the goal to apply for regulatory approvals and initiate product launch at the earliest time practicable. We expect IND applications to be submitted for multiple pipelines in 2024, the majority of which are for ADC and ADC-derivative assets.

Guided by our indication-oriented approach, we will continue to advance our clinical-stage and preclinical oncology assets to target cancer indications with high prevalence and medical needs, notably BC, NSCLC, GI cancers and NPC. We will also continue to build and expand our differentiated non-oncology drug portfolio to target indications with significant disease burden and medical needs including autoimmune and metabolic diseases, leveraging our competitive ADC, biologics and small-molecule technology platforms.

Full coverage of major breast cancer subtypes. We have strategically targeted BC, the most common cancer worldwide with significant underserved medical needs, as our lead oncology indication with coverage by three key assets, namely, SKB264, A166 and A167 (in combination with SKB264).

- *TNBC*. We have completed patient enrollment for SKB264's pivotal phase 3 trial in patients with advanced TNBC who have failed two or more lines of treatment in China, and the NDA was accepted by the NMPA in December 2023. For SKB264, we are also conducting a phase 2 trial with or without A167 as a 1L treatment for advanced TNBC. We expect to receive marketing approval in China for 3L advanced TNBC and to initiate pivotal trial for 1L advanced TNBC in 2024. The phase 2 trial results for SKB264 as a 1L treatment for TNBC and phase 3 trial results for SKB264 as a 3L treatment for TNBC are also expected to be released in 2024.

- *HER2+ BC*. A166 has met the primary endpoints of its pivotal phase 2 trial for 3L+ advanced HER2+ BC based on results from the primary analysis, which we used to submit an NDA to the NMPA in May 2023. We also initiated a confirmatory phase 3 trial of A166 compared with T-DM1 as a 2L+ treatment in advanced HER2+ BC patients in June 2023 and expect to complete patient enrollment in 2024. We expect to receive marketing approval for 3L advanced HER2+ BC in the second half of 2024 or the first half of 2025.

- *HR+/HER2- BC*. We initiated a registrational phase 3 study for 2L+ HR+/HER2- metastatic BC. We obtained approval from the CDE of the NMPA in September 2023 for the IND application for SKB264 with or without KL-A167 (anti-PD-L1 inhibitor) in patients with unresectable locally advanced, recurrent or metastatic HR+/HER2- BC. We plan to initiate a pivotal trial for 1L HR+/HER2- BC after failure with ET in 2024.

Robust development plan for NSCLC. We are developing multiple oncology assets engineered to target different subtypes of NSCLC, the second most common cancer worldwide, with an aim to benefit patients currently without effective treatment options. In particular:

- *EGFR-mutant NSCLC*. For SKB264, we achieved first-patient-in for a pivotal phase 3 trial in EGFR-mutant locally advanced or metastatic non-squamous NSCLC patients who have failed EGFR-TKI therapy in China in July 2023. We plan to submit an NDA for 3L EGFR-mutant NSCLC in China in 2024.

- *EGFR-wild type NSCLC*. For SKB264, we are conducting a phase 2 trial in combination with A167 with or without chemotherapy for EGFR-wild type advanced NSCLC in China. The ongoing dose expansion study of a global phase 1/2 trial for advanced NSCLC also includes EGFR-wild type NSCLC. We expect to initiate pivotal trial for 1L EGFR-wild type NSCLC in 2024.

- *RET+ NSCLC*. Based on the promising preliminary results of A400 in advanced RET+ NSCLC patients, we completed CDE clinical consultation and received approval for pivotal trials for advanced RET+ NSCLC, which we commenced in July 2023, and patient enrollment is in progress.

The phase 2 trial results for SKB264 as a 1L treatment for NSCLC is expected to be released in 2024.

Expanding clinical programs for GI cancers. We are targeting GC and CRC, the two most common GI cancers worldwide. GC is the second most common cancer in China, which had approximately 43.3% of the world's GC patients in 2022, and a leading cause of cancer death globally, while CRC is the third most common cancer and a leading cause of cancer death in China. To date, we have selected GC as a key indication for both of our Core Products, namely SKB264 and A166; and CRC as a key indication for A166 and A140. For GC, we are advancing the dose expansion study of SKB264's global phase 1/2 trial in advanced GC patients who have at least failed 1L treatment and a phase 1b trial of A166 for advanced HER2+ GC in China. Meanwhile, SKB315 targets CLDN18.2, which is highly expressed in GC. For CRC, an NDA of A140 for RAS wild-type mCRC was accepted by the NMPA in September 2023.

Advanced development for NPC. We are targeting NPC, a cancer with higher prevalence in China than in western countries. Patients with RM-NPC account for approximately 35% of total NPC cases and have a five-year survival rate of 10-20% in China. We expect to receive marketing approval for A167 for RM-NPC in 2024.

Building on non-oncology pipelines. For A223, our small molecule JAK1/2 inhibitor, we are conducting phase 2 trials in patients with moderate-to-severe RA and severe AA. Both phase 2 trials are making steady progress. For A277, our peripherally-restricted KOR agonist for CKD-aP, we are conducting a phase 2 proof-of-concept trial. We will also continue to advance the clinical development of our two early-stage drug candidates SKB378 and SKB336.

In addition, we will continue to develop novel non-oncology drug candidates to address highly prevalent chronic diseases currently without effective treatments, including autoimmune and metabolic diseases. These chronic diseases are often associated with aging and exacerbated by the complex interactions of numerous lifestyle and environmental factors. We are dedicated to designing novel drug candidates and promoting R&D innovations to address these and other medical needs.

(ii) Innovating on optimized payload-linker strategies, novel ADC designs and structures, and expanded application to non-oncology diseases

We are establishing novel ADC designs to further advance our ADC portfolio via a multi-pronged strategy, including:

- further optimizing our payload-linker technologies to solidify our ADC capabilities. In addition to new Topoisomerase Inhibitors, we have developed DNA-damaging reagents and non-cytotoxic molecules to overcome drug resistance towards current ADCs via differentiated mechanism of action. To match the needs of constructing ADCs with appropriate drug load, we have developed site-specific conjugating technologies that allow precise control of DAR value (2/4), and this is realized via a practical and cost-effective chemistry, manufacturing and controls (CMC) process without complicated antibody engineering or modification.

- developing novel ADC designs and structures such as bispecific ADCs, dual-payload ADCs, immunostimulatory ADCs and RDCs. We are developing bsADCs equipped with dual-targeting antibodies to deliver enhanced clinical benefits, such as (i) biparatopic antibodies that target different, nonoverlapping binding sites on a single antigen to improve efficacy by promoting cellular uptake of an ADC, (ii) bsAbs that target two different antigens co-expressed on the same cancer cells to improve binding specificity toward cancer cells and reduce off-tumor toxicity, and (iii) TAA-IO bsAbs to enhance anti-tumor effect by simultaneously targeting TAA on tumor cells and IO antigen. We are also harnessing the synergy between IO and tumor targeting via iADCs, which are a novel form of ADCs to activate anti-tumor immune response on top of conventional tumor-directed cytotoxin delivery, with promising efficacy and safety results observed in preclinical studies. Moreover, we are developing RDCs that carry radioactive isotopes to cancer cells. By manipulating a distinct mechanism of action, RDCs represent a promising strategy to overcome drug resistance associated with traditional cytotoxin-based ADCs.

- developing ADCs with non-cytotoxic payloads to target non-oncology diseases. In addition to ADCs for treating cancers, we are developing ADCs configured with various novel, non-cytotoxic payload strategies for non-oncology diseases, such as ADCs with GR modulators as payloads to treat autoimmune diseases.

- other than developing new forms of drug conjugation, exploring PROTAC technology, a novel method to generate small molecules with the potential to induce the degradation of a target protein. We aim to improve the therapeutic value and drug-like properties of the resulting PROTAC molecules through in-depth target biology research, CADD, enhanced preclinical safety evaluation methods, and other techniques that help optimize the discovery process.

(iii) Enhancing our end-to-end drug development capabilities and advancing towards commercialization

R&D. In addition to expanding our drug portfolio, we are dedicated to optimizing our R&D platforms and developing novel technologies to support the R&D of next-generation drugs. We continue to enhance our R&D capabilities by bringing in experienced professionals from around the world. In addition, we are paying close attention to AI-enabled drug discovery and plan to introduce AI into several R&D processes to further improve R&D efficiency, including novel target validation, drug discovery, synthesis pathway generation, prediction of drug properties and indication selection, and so on.

Manufacturing and Quality Control. We will continue to expand our cGMP facilities to support the anticipated commercialization of our near-commercial assets. Going forward, we will continue to enhance our manufacturing capabilities, through expanding our in-house capacity or through collaborating with industry-recognized contract manufacturing organizations. Meanwhile, we strive to upgrade and improve our comprehensive quality control system, benchmarking against the highest international standards adopted by pharmaceutical multinational corporations, to ensure patient safety and regulatory compliance.

Commercialization. Based on the expected approval timeline of each late-stage project in our pipeline, we expect to receive conditional marketing approval from the NMPA for A167 (PD-L1 mAb) in the second half of 2024. Subject to regulatory communications and marketing approval, we expect to launch our Core Products, SKB264 and A166, and A140 in the China market in the second half of 2024 or the first half of 2025. In anticipation of these upcoming milestones, we are actively recruiting talents with a strong background in oncology, especially in BC, NSCLC, GI cancers and NPC, our lead indications for these late-stage assets. We have set up a fully-fledged commercialization team, which we plan to expand to around 500 people by the end of 2024, to oversee and coordinate pre-marketing preparation and commercialization, laying the groundwork for rapid commercial-scale distribution upon these anticipated NDA approvals by the NMPA. Targeting major hospitals and cancer institutes in major cities in China, the commercial team will engage with physicians to conduct medical education programs for BC, LC, GI cancers and NPC to prepare for our product launches. Marketing and academic activities will also be conducted to further enhance the brand presence of our Company and our innovative products. Globally, we will continue to pursue a flexible strategy to capture the commercial value in major international markets, through forging synergistic license and collaboration opportunities worldwide.

(iv) Expanding global footprints and strategic partnerships to maximize the value of our pipelines

Following the success of our existing license and collaboration agreements, we are actively exploring new partnership opportunities globally. We take a two-pronged business development approach to drive both our near- and long-term growth: for clinical-stage assets, we focus on forging partnerships with multinational corporations and leading domestic companies to accelerate our development timelines and maximize the commercial value of our pipeline; for early-stage assets and drug discovery, we seek co-development opportunities that enable us to explore new therapeutic areas and cutting-edge modalities and augment our technology platforms. Meanwhile, we are closely monitoring global opportunities to in-license new drug candidates and innovative technologies that could bring strategic synergies to our pipeline and technology platforms. We will consider whether to retain the Greater China commercial rights of, or fully out-license, our assets as we evaluate opportunities on a case by case basis. We are also committed to enhancing our collaborations with key opinion leaders, top hospitals and academic institutions, in China and globally, to ensure our timely access to cutting-edge research and support our existing and future pipeline.

(v) Optimizing our operation system to become a leading global biopharmaceutical company

We are continuously reviewing and optimizing our internal procedures, particularly our R&D management process, to enhance operational efficiency and support our growth as a fully-fledged biopharmaceutical company. We also aim to attract and recruit outstanding scientific, marketing and managerial personnel to join our talent pool, in order to maintain our competitiveness in a rapidly evolving industry.

Meanwhile, we are actively seeking opportunities to expand our global footprint and raise international brand awareness. As our business continues to grow, we will adhere to our mission to address major medical needs in China and globally, and to bring world-class treatments, and a healthier and happier life, to all patients.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Chairman of the Board and non-executive Director

Mr. LIU Gexin (劉革新), aged 73, was appointed as a Director and the chairman of the Board in November 2016 and March 2022, respectively. He was redesignated as our non-executive Director on February 15, 2023. He is mainly responsible for overseeing the management and strategic development of the Group.

Mr. Liu is the founder of Kelun Pharmaceutical and has served as the chairman of Kelun Pharmaceutical since its establishment. From November 2020 to October 2022, he served as a director of Kelun Research Institute. In addition, Mr. Liu currently has also held positions in a number of subsidiaries of Kelun Group, including (i) the chairman of Sichuan Kelun Industry Group Co., Ltd. (四川科倫實業集團有限公司); (ii) the chairman of Chengdu Qingshan Likang Pharmaceutical Co., Ltd. (成都青山利康藥業有限公司); (iii) the chairman of Yili Chuanning Biotechnology Co., Ltd. (伊犁川寧生物技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 301301); and (iv) a director of Chengdu Huaxi Clinical Research Co., Ltd. (成都華西臨床研究中心有限公司).

Mr. Liu obtained his master's degree in cardiovascular pharmacology from Chongqing Medical College (重慶醫學院) (currently known as Chongqing Medical University (重慶醫科大學)) in China in June 1984. Mr. Liu also obtained his another master's degree in political economics from Southwest Normal University (西南師範大學) (currently known as Southwest University (西南大學)) in China in July 2003. Mr. Liu has received a series of awards and recognition, including (i) the National Model Worker (全國勞動模範) by The State Council, PRC (中華人民共和國國務院) in May 2005 and (ii) the Second Prize of National Science and Technology Progress Award (國家科技進步二等獎) by The State Council, PRC (中華人民共和國國務院) in December 2014. Mr. LIU Gexin is the father of Mr. LIU Sichuan, a non-executive Director.

Executive Directors

Dr. GE Junyou (葛均友), aged 52, was appointed as a Director in February 2022. He was redesignated as our executive Director on February 15, 2023. Dr. Ge was appointed as the Chief Operation Officer of the Company in February 2021 and the general manager of the Company in March 2022. He is mainly responsible for overall corporate and business strategies of our Group and making key business and operational decisions of our Group. Dr. Ge has also served as a director and the Chief Executive Officer of KLUS PHARMA in US since December 2021, an executive director of Sichuan Konas since November 2021, a director of Biotargeted Drug Engineering Research Center (生物靶向藥物國家工程研究中心) since March 2023 and a director of Kelun-Biotech Hong Kong Co., Limited since October 2023.

Dr. Ge has been engaged in the R&D of innovative drugs, manufacturing and quality control, and corporate management in the pharmaceutical industry at home and abroad for about 30 years. The companies he has worked for include Shanghai Yan'an Pharmaceutical Factory (上海延安製藥廠), Boehringer Ingelheim (勃林格殷格翰), Zhejiang Hisun Pharmaceutical Co., Ltd. (浙江海正藥業股份有限公司 600267.SH) and Ratiopharm GmbH. Dr. Ge joined Kelun Pharmaceutical in June 2007 and served as a deputy general manager from July 2009 to February 2021, where he was mainly responsible for leading the quality management of Kelun Group. As a top cGMP expert in China, he participated in the revision, drafting, and review of the new Chinese GMP regulations, related guidelines and guiding principles, and co-authored five Professional Publications on GMP.

Dr. Ge obtained his bachelor's degree in pharmacy from Shanghai Medical School (上海醫科大學) (currently known as Shanghai Medical College Fudan University (復旦大學上海醫學院)) in China in July 1994. He obtained his master's degree in pharmaceutical engineering from East China University of Science and Technology (華東理工大學) in November 2008. He also obtained his doctoral degree in biology and medicine from Fudan University (復旦大學) in January 2017.

Dr. Ge is currently a standing committee member of the Sichuan Association for Science and Technology, a visiting professor at the Institute of Executive Development of NMPA, an expert reviewer for the Ministry of Science and Technology's science and technology plan projects, a member of the Peer Review Expert Panel for the Hong Kong Innovation and Technology Commission, a member of the Drug Quality Management Committee of the Chinese Pharmaceutical Association, a member of the Anti-Cancer Drug Committee of the Chinese Pharmaceutical Association, Vice President of the China Quality Association for Pharmaceuticals, and a director of the Hong Kong Association of Overseas-Returned Scholars, etc..

Dr. WANG Jingyi (王晶翼), aged 63, was appointed as a Director of our Company in November 2016 and was redesignated as an executive Director on February 15, 2023. Dr. Wang had been serving as the general manager of our Company and ceased to act as the general manager in March 2022. He is mainly responsible for the overall strategic planning and development of the Group.

From December 1999 to March 2001, Dr. Wang served as a research assistant professor in medicine of University of Arkansas for Medical Sciences. He formerly served as a vice general manager of QILU Pharmaceutical Co., Ltd. (齊魯製藥有限公司) and the president of QILU Pharmaceutical and Drug Research Institute (齊魯製藥藥物研究院). From November 2012 to February 2021, Dr. Wang served as a director of Kelun Pharmaceutical.

Dr. Wang is currently one of the editorial board members of China Journal of New Drugs《中國新藥雜誌》, an evaluation expert for national science and technology awards (國家科學技術獎勵) and major national science and technology projects for major new drug creation (重大新藥創製國家科技重大專項). Dr. Wang has also been awarded the second prize of National Science and Technology Progress Award (國家科學技術進步二等獎) by The State Council, PRC (中華人民共和國國務院) for two times in recent years.

Dr. Wang obtained his bachelor's degree in medical medicine from China Medical University (中國醫科大學) in China in August 1983. He obtained his master's degree and doctoral degree in lemology and medical molecular virology from The Fourth Military Medical University (解放軍第四軍醫大學) in China in November 1988 and July 1991, respectively.

Non-executive Directors

Mr. LIU Sichuan (劉思川), aged 40, was appointed as a Director in November 2016. He was redesignated as our non-executive Director on February 15, 2023. He is mainly responsible for overseeing the management and strategic development of the Group.

Mr. Liu joined Kelun Pharmaceutical and served as the assistant of chairman in 2007. He has been serving as a director of Kelun Pharmaceutical since May 2009 and general manager of Kelun Pharmaceutical since September 2015. Currently he has also held positions in a number of subsidiaries of Kelun Group, including (i) a director of Chengdu Qingshan Likang Pharmaceutical Co., Ltd. (成都青山利康藥業有限公司) since June 2012; (ii) a manager and executive director of Chengdu Kelun Chuaicai Enterprise Management Co., Ltd (成都科倫川智企業管理有限公司) since May 2020; (iii) a director of Yili Chuanning Biotechnology Co., Ltd. (伊犁川寧生物技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 301301), since June 2020; (iv) a director of Sichuan Kelun Industry Group Co., Ltd. (四川科倫實業集團有限公司) since September 2021; and (v) a manager and executive director of Chengdu Kelun Jingchuan Technology Co., Ltd. (成都科倫晶川科技有限公司) since November 2021.

Mr. Liu obtained his master's degree in international business from the University of Leeds in the United Kingdom in August 2007. Mr. Liu has received a series of awards and recognition, including "Title of Outstanding Entrepreneur in Hunan Province" ("湖南省優秀企業家稱號") issued by Hunan Provincial Committee of the CPC and the People's Government of Sichuan Province (中共湖南省委、湖南省人民政府) on January 2018, and "National Advanced Individual in Fighting the COVID-19" ("全國抗擊新冠肺炎疫情先進個人") issued by CPC Central Committee, The State Council, PRC and the Military Commission of the CPC Central Committee (黨中央、國務院、中央軍委) in September 2020. Mr. LIU Sichuan is the son of Mr. LIU Gexin, the chairman of the Board and non-executive Director.

Mr. FENG Hao (馮昊), aged 44, was appointed as a Director in February 2021. He was redesignated as our non-executive Director on February 15, 2023. He is mainly responsible for overseeing the management and strategic development of the Group.

Mr. Feng has been serving as a deputy general manager and secretary of board of directors of Kelun Pharmaceutical since April 2014. He also served as a non-executive director of SSY Group Limited (石四藥集團有限公司), a company listed on the Stock Exchange (stock code: 02005), from November 2017 to November 2023.

From July 2002 to August 2003, Mr. Feng served as a tutor at the School of Economics at Huazhong University of Science and Technology (華中科技大學). From December 2004 to January 2005, Mr. Feng served as an analyst at the Actuarial Division of Taiping Life Insurance Company Limited. From December 2005 to December 2006, he served as an actuarial advisory consultant at Watson Wyatt Consultancy (Shanghai) Ltd. From January 2007 to August 2007, he served as a senior manager at the investment banking division of Ping An Securities Limited. From September 2007 to January 2014, he served as a business director at the investment banking division of Sinolink Securities Co. Ltd.

Mr. Feng obtained his master's degree in financial mathematics from Heriot-Watt University in the United Kingdom in November 2005. Mr. Feng has received a series of awards and recognition including the 2022 and 2023 5A Rating for Duty Performance of Board Secretary of Listed Companies (2022及2023上市公司董事會秘書履職5A評級) by China Association for Public Companies (中國上市公司協會) on December 12, 2022 and December 6, 2023, respectively.

Mr. ZENG Xuebo (曾學波), aged 39, was appointed as a Director in July 2022. He was redesignated as our non-executive Director on February 15, 2023. He is mainly responsible for overseeing the management and strategic development of the Group.

Formerly he served as a manager and was then promoted as a director of Shenzhen Zhongyi Yingtai Venture Capital Co., Ltd. (深圳中逸盈泰創業投資有限公司). From June 2015 to July 2016, he served as a deputy director of Shenzhen Investment Holdings Donghai Investment Co., Ltd. (深圳投控東海投資有限公司). From August 2016 to October 2020, he served as a director and was then promoted as a vice president of Aiqi Venture Capital Management (Shenzhen) Co., Ltd. (愛奇創業投資管理(深圳)有限公司). He has served as a vice president and a managing director of Hexie Zhuorui (Zhuhai) Investment Management Co., Ltd. (和諧卓睿(珠海)投資管理有限公司) since November 2020 and March 2024, respectively. From January 2022 to September 2023, he served as a director of Hang Zhou Sciwind Biosciences Co., Ltd. (杭州先為達生物科技有限公司).

Currently he also holds positions in various companies, including (i) a director of Shandong Bestcomm Pharmaceutical Company Limited (山東百諾醫藥股份有限公司); (ii) a director of Shanghai Model Organisms Center, Inc. (上海南方模式生物科技股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 688265), since September 2022; (iii) a director of Chiral Quest (Suzhou) Co., Ltd. (凱瑞斯德生化(蘇州)有限公司), since December 2022; (iv) a director of Jiangxi Longlife Bio-pharmaceutical Co., Ltd. (江西隆萊生物製藥有限公司), since February 2023; (v) a director of Suzhou Pengxu Pharmatech Co., Ltd. (蘇州鵬旭醫藥科技有限公司), since February 2023; (vi) an independent director of CASI Pharmaceuticals, Inc., a company listed on NASDAQ (stock code: CASI), since March 2023; (vii) a director of Zhejiang Ablaze Medicine Co. Ltd. (浙江艾比奧健康科技有限公司), since March 2023; and (viii) a director of ZenCore (Cayman) Limited, since November 2023.

Mr. Zeng obtained his bachelor's degree in pharmacy from Qinghai Minzu University (青海民族大學) in China in July 2009.

Mr. LI Dongfang (李東方), aged 36, was appointed as a Director in February 2022. He was redesignated as our non-executive Director on February 15, 2023. He is mainly responsible for overseeing the management and strategic development of the Group.

From August 2011 to March 2015, Mr. Li served as an analyst of Goldman Sachs (Asia) L.L.C. He has been serving as an executive director of SDIC Investment Management Co., Ltd. (國投招商投資管理有限公司) since August 2015, where he is responsible for equity investment.

Mr. Li obtained his bachelor's degree and master's degree in electronic commerce and finance from University of International Business and Economics (對外經濟貿易大學) in China in July 2009 and July 2011, respectively. He has been a Chartered Financial Analyst since June 2015.

Independent Non-executive Directors

Dr. ZHENG Qiang (鄭強), aged 63, was appointed as an independent non-executive Director on February 15, 2023 with effect from July 2023. He is mainly responsible for supervising and providing independent advice on the operation and management of our Group.

Dr. Zheng joined the Peking University (北京大學) in 2005, and served as a professor and doctoral supervisor in industrial engineering and management in Peking University (北京大學) until his retirement on January 27, 2024.

Dr. Zheng obtained his bachelor's degree in physics from Peking University (北京大學) in China in July 1983. Dr. Zheng obtained his master's degree in physics from Graduate School of Chinese Academy of Sciences (中國科學院研究生院) (currently known as University of Chinese Academy of Sciences (中國科學院大學) in China in August 1986. He also obtained his doctoral degree in physics from Temple University in the United States in June 1989.

Dr. TU Wenwei (涂文偉), aged 57, as appointed as an independent non-executive Director on February 15, 2023 with effect from July 2023. He is mainly responsible for supervising and providing independent advice on the operation and management of our Group.

Dr. Tu successively served as a lecturer and attending doctor at the department of paediatrics of Children's Hospital, Chongqing Medical University (重慶醫科大學附屬兒童醫院) and a postdoctoral researcher fellow in the department of pediatrics at the Stanford University School of Medicine in the United States before 2006. Dr. Tu has served as a professor in the department of paediatrics & adolescent medicine, Li Ka Shing Faculty of Medicine at The University of Hong Kong (the "**HKU**") since June 2015. Dr. Tu also held various positions, such as the assistant dean of the Li Ka Shing Faculty of Medicine since October 2011 and an associate professor since June 2009 at the department of paediatrics & adolescent medicine since joining HKU in 2006.

Dr. Tu obtained his bachelor's and master's degrees in medicine sciences from Chongqing Medical University (重慶醫科大學) in the PRC in July 1989 and December 1992, respectively. He obtained his doctoral degree in philosophy from HKU in December 1999. Dr. Tu has received a series of awards including several Prize of Science and Technology Progress (科技進步獎). He was also recognized as a Changjiang scholar chair professor in pediatrics (長江學者講座教授(兒科)) by Ministry of Education of PRC (中華人民共和國教育部) in April 2016.

Dr. JIN Jinping (金錦萍), aged 51, was appointed as an independent non-executive Director on February 15, 2023 with effect from July 2023. She is mainly responsible for supervising and providing independent advice on the operation and management of our Group.

Dr. Jin serves as an associate professor in the Law School, Peking University (北京大學). She has been serving as an independent director of Beijing Oriental Jicheng Co., Ltd. (北京東方中科集成科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002819), since July 2018, an independent director of China Automotive Engineering Research Institute Co., Ltd. (中國汽車工程研究院股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601965), since January 2020, and an independent non-executive Director of Horizon Construction Development Limited (宏信建設發展有限公司), a company listed on the Stock Exchange (stock code: 9930), since May 2021. Dr. Jin served as an independent director of Beijing WKW Automotive Parts Co., Ltd. (北京威卡威汽車零部件股份有限公司), a company listed on the main board of the Shenzhen Stock Exchange (stock code: 002662), from January 2014 to May 2020.

Dr. Jin obtained a bachelor's degree in economic law from Peking University (北京大學) in the PRC in July 1995, a master's degree in civil and commercial law from Peking University in July 2001, and a doctorate degree in civil and commercial law from Peking University in June 2004. Dr. Jin obtained a lawyer qualification granted by the Ministry of Justice of the PRC in June 1997 and higher education teacher qualification granted by the Beijing Municipal Education Commission in December 2008. Dr. Jin has served as a director of the China Red Cross Foundation since September 2016.

Dr. LI Yuedong (李越冬), aged 47, was appointed as an independent non-executive Director on February 15, 2023 with effect from July 2023. She is mainly responsible for supervising and providing independent advice on the operation and management of our Group.

Dr. Li joined the Southwestern University of Finance and Economics (西南財經大學) in 2004 and she has been serving as a doctoral supervisor in Auditing in Southwestern University of Finance and Economics (西南財經大學) since January 2022. She has been serving as (i) an independent director of Chengdu Leejun Industrial Co., Ltd. (成都利君實業股份有限公司) since July 2021, a company listed on the Shenzhen Stock Exchange (stock code: 002651); (ii) an independent director of Chengdu Sino Microelectronics Technology Co., Ltd. (成都華微電子科技股份有限公司), a company listed on the Shanghai Stock Exchange in January 2024 (stock code: 688709), since September 2021; (iii) an independent director of Ya'an Baitu High Tech Materials Co., Ltd. (雅安百圖高新材料股份有限公司) since September 2022; (iv) an independent director of Chengdu Zhimingda Electronics Co., Ltd. (成都智明達電子股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 688636), since November 2022; (v) an independent director of Chengdu Shengbang Seals Co., Ltd. (成都盛幫密封件股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 301233), since November 2022; and (vi) an external supervisor of Sichuan Beichuan Rural Commercial Bank Co., Ltd. (四川北川農村商業銀行股份有限公司) since December 2023. In addition, Dr. Li also served as (i) an independent director of Kelun Group from June 2015 to June 2021; (ii) an independent director of Chengdu Hi-Tech Development Co., Ltd. (成都高新發展股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000628) from June 2015 to June 2022; (iii) an independent director of Sichuan Fengsheng Paper Technology Co., Ltd. (四川鳳生紙業科技股份有限公司) from December 2019 to December 2022; and (iv) an independent director of Sichuan Neautus Traditional Chinese Medicine Co., Ltd. (四川新荷花中藥飲片股份有限公司) from January 2020 to February 2023.

Dr. Li obtained her bachelor's degree in economics from Chongqing Business College (重慶商學院) (currently known as Chongqing Technology and Business University (重慶工商大學)) in China in July 2000. Dr. Li obtained her master's degree in accountancy from Georgia College & State University in the United States in May 2004. She also obtained her doctoral degree in business administration from Southwestern University of Finance and Economics (西南財經大學) in China in January 2011, completed the joint post-doctoral program between the National Audit Office of China (中國審計署) and Peking University in 2015 and served as a research fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) in 2021. Dr. Li was appointed as an external doctoral supervisor for the DBA at Lyon Business School, France, in July 2022 and was certified as a public accountant by the Board of Accountancy of Guam, the United States, in August 2015. She also participated numerous times in United Nations audit projects of the National Audit Office of China and completed audit training course in the United Nations in June 2020. Dr. Li has received a series of awards and recognition. She was recognized as an internationalized high-end accounting talent (國際化高端會計人才) by Ministry of Finance of the PRC (中國財政部) in December 2021.

SUPERVISORS

Mr. LAI Degui (賴德貴), aged 52, was appointed as the chairman of the Supervisory Committee and a Supervisor in February 2021. He is mainly responsible for supervising the performance of duties by Directors and senior management.

Mr. Lai has served as (i) a deputy general manager and financial director of Kelun Pharmaceutical since October 2014; (ii) a supervisor of Chengdu Kelun Chuanzhi Enterprise Management Co., Ltd. (成都科倫川智企業管理有限公司) since May 2020; (iii) an executive director of Zhejiang Keyun IOT Technology Co., Ltd. (浙江科運物聯科技有限公司) since December 2020; (iv) an executive director and general manager of Shanxi Keyun IOT Technology Co., Ltd. (山西科運物聯科技有限公司) since May 2021; and (v) an executive director and general manager of (四川科誌物聯科技有限公司) since October 2021.

Mr. Lai received a diploma of accounting from Southwestern University of Finance and Economics (西南財經大學) through on-the-job learning in January 2013, and received a master's degree in business management from Tsinghua University (清華大學) in June 2023.

Ms. LIAO Yihong (廖益虹), aged 44, was appointed as a Supervisor in February 2022. She is mainly responsible for supervising the performance of duties by Directors and senior management.

Ms. Liao served as the chief director of audit of Kelun Pharmaceutical from December 2014 to April 2022. Ms. Liao was promoted as a deputy general manager of Kelun Pharmaceutical in April 2022.

From August 2002 to September 2006, Ms. Liao served as a senior auditor in Shenzhen branch of PricewaterhouseCoopers Zhongtian Certified Public Accountants (special general partnership) (普華永道中天會計師事務所(特殊普通合夥)). From September 2006 to November 2014, she served as an audit manager in the Chengdu branch of KPMG Consulting (China) Co., Ltd. (畢馬威企業諮詢(中國)有限公司).

Ms. Liao obtained her bachelor's degree in accounting from Guangdong University of Foreign Studies (廣東外語外貿大學) in China in June 2002. She obtained her master's degree in accounting from Tsinghua University (清華大學) through on-the-job learning in China in June 2021.

Mr. WAN Peng (萬鵬), aged 48, was appointed as a Supervisor in February 2021. He is mainly responsible for supervising the performance of duties by Directors and senior management.

Mr. Wan has served as the general legal counsel and a non-employee representative supervisor of Kelun Pharmaceutical since December 2007 and March 2015, respectively. He worked as one legal counsel in the Sichuan Kelun Pharmaceutical Factory (四川科倫大藥廠), the predecessor of Kelun Pharmaceutical, in November 2001.

Mr. Wan obtained his on-the job master of business administration from Sichuan University of Business Administration (四川省工商管理學院) in China in July 2005.

Dr. SONG Hongmei (宋宏梅), aged 41, was appointed as a Supervisor in March 2021. She is mainly responsible for supervising the performance of duties by Directors and senior management. Dr. Song joined our Group in May 2019 and has served as our vice president of R&D.

From November 2012 to December 2014, Dr. Song successively served as a team leader of biological R&D and an assistant director of biology at HitGen Inc. (成都先導藥物開發有限公司), where she was mainly responsible for hit screening and activity evaluation, and project and team management. From January 2015 to November 2017, she successively served as a project manager and a vice minister of pharmacology department of Kelun Research Institute. From December 2017 to May 2019, she served as the head of innovation center of Kelun Research Institute.

Dr. Song obtained her bachelor's degree in bioscience from Sichuan Agricultural University (四川農業大學) in China in June 2005. She obtained her master's degree in biochemistry and molecular biology from Sichuan University (四川大學) in China in June 2010. She obtained her doctoral degree in biomedical engineering from Sichuan University (四川大學) in China in December 2012.

Ms. YANG Qiuyan (楊秋豔), aged 39, joined our Company as the head of production management department in August 2017 and was appointed as a Supervisor in March 2022. She is mainly responsible for supervising the performance of duties by Directors and senior management.

She served as a project manager of the microbiology research team and a deputy minister of biopharmaceuticals of Kelun Research Institute from July 2010 to June 2013 and from June 2013 to August 2017, respectively.

Ms. Yang obtained her bachelor's and master's degree in biological engineering and biochemical engineering from Sichuan University (四川大學) in China in July 2007 and June 2010, respectively.

Dr. QING Yan (卿燕), aged 40, joined our Company as a vice president of the clinical research center in January 2021 and was appointed as a Supervisor in March 2022. She is mainly responsible for supervising the performance of duties by Directors and senior management.

From November 2012 to December 2020, she was a director of the medical information center of Kelun Research Institute, where she was mainly responsible for innovative small molecules, imitation projects, pipeline construction.

Dr. Qing obtained her bachelor's and master's in clinical medicine from Tongji Medical College of Huazhong University of Science and Technology (華中科技大學同濟醫學院) in China in June 2007 and June 2009, respectively. Dr. Qing obtained her doctoral degree in occupational hygiene and environmental hygiene (direction of toxicology) from Tongji Medical College of Huazhong University of Science and Technology (華中科技大學同濟醫學院) in China in June 2012.

SENIOR MANAGEMENT

Dr. GE Junyou (葛均友), aged 51, is our executive Director and general manager. Please refer to "Executive Director" in this section for biographical details of Dr. Ge.

Mr. FENG Yi (馮毅), aged 59, was appointed as our deputy general manager and chief strategy officer in March 2021. He joined our Group as a senior vice president in December 2020. He is mainly responsible for the management of strategic planning of R&D and clinical development of our Group.

Mr. Feng formerly served as an assistant of the director of Center of Drug Evaluation, NMPA (國家藥品監督管理局藥品審評中心). From February 2014 to December 2015, he served as a senior consultant at China Office of Covington & Burling Law Firm (美國科文頓柏靈律師事務所中國代表處), where he was mainly responsible for drug regulations. From January 2016 to August 2018, he served as the president of Greater China of Fountain Pharmaceuticals Co., Ltd. (方恩醫藥有限公司) (currently known as Clinchoice Inc. (昆翎醫藥)), where he was mainly responsible for leading and managing company. From November 2018 to November 2020, he served as senior vice dean and chief strategy officer of Kelun Research Institute.

Mr. Feng obtained his bachelor's degree in aviation medicine from The Fourth Military Medical University of the Chinese People's Liberation Army (中國人民解放軍第四軍醫大學) in China in July 1987. He obtained his master's degree in radio medicine from Chinese People's Liberation Army Academy of Military Medical Sciences (中國人民解放軍軍事醫學科學院) in China in July 1996. He was recognized as the model staff (工作標兵) by Center for Drug Evaluation, Ministry of Health, PRC (中華人民共和國衛生部藥品審評中心) in January 2001.

Dr. ZHANG Yiwei (張一偉), aged 68, was appointed as our deputy general manager in March 2022. He joined our Group in January 2018 as the director of quality control, and was promoted to senior director in March 2020. He is mainly responsible for the management of manufacturing, quality analysis and control of our Group.

From October 1990 to August 1991, Dr. Zhang was a visiting scientist of Department of Pure and Applied Biology, The University of Leeds. From August 1995 to May 2007, he served as a postdoctoral fellow and associate researcher of Department of Pathology, Albert Einstein College of Medicine. From June 2007 to October 2008, he served as a quality control scientist of ImClone System, Inc., a company focusing on biopharmaceuticals, where he was mainly responsible for quality control of biomacromolecule drugs. From November 2008 to December 2017, he served as a senior scientist of Eli Lilly and Company, a pharmaceutical company listed on the New York Stock Exchange (stock code: LLY), where he was mainly responsible for quality control and technology development of biomacromolecule drugs.

Dr. Zhang obtained his bachelor' degree in medicine from Chongqing Medical College (重慶醫學院) (currently known as Chongqing Medical University (重慶醫科大學)) in China in July 1984. He obtained his doctoral degree in theoretical and applied biology from University of Leeds in the United Kingdom in October 1995. Dr. Zhang was awarded the first prize of academy of science and technology (院科技壹等奬) by Sichuan Academy of Medical Sciences, PRC (中國四川省醫學科學院) in December 1989 and the third prize of Sichuan Science and Technology Progress Award in 1989 (1989 年度四川省科學技術進步奬三等奬) by the People' Government of Sichuan Province (四川省人民政府) in April 1990.

Dr. TAN Xiangyang (譚向陽), aged 61, was appointed as our deputy general manager and chief scientific officer of biologics' research and development in July 2021. He is mainly responsible for the management of preclinical research and business development of our Group.

From June 1990 to November 1991, he served as an assistant researcher of Wuhan Institute of Biological Products, Ministry of Health (衛生部武漢生物製品研究所). From December 1991 to December 1997, he served as a postdoctoral fellow of Harvard Medical School. From January 1998 to December 2007, he served as a principal scientist of Wyeth, LLC. From January 2008 to February 2009, he served as a principal scientist of Pfizer Inc., a company listed on the New York Stock Exchange (stock code: PFE). From February 2009 to November 2015, he served as a principal scientist of Biogen Inc., a company listed on the NASDAQ (stock code: BIIB). From January 2016 to July 2017, he served as the head of the biologics R&D department of Abpro Corporation. From July 2017 to May 2019, he served as a vice president of Harbour BioMed Shanghai Co., Led. (和鉑醫藥(上海)有限責任公司), a subsidiary of HBM Holdings Limited (和鉑醫藥控股有限公司), a company listed on the Stock Exchange (stock code: 02142). From August 2019 to February 2021, he worked in 4B Technologies (Suzhou) Co., Ltd. (福貝生物科技(蘇州)公司) as a vice president of the R&D department. From March 2021 to July 2021, he served as a senior vice president of Duality Biologics (Suzhou) Co., Ltd. (映恩生物製藥(蘇州)有限公司), where he was mainly responsible for formulation and implementation of the technology platform for preclinical innovative drug.

Dr. Tan obtained his bachelor's degree in clinical medicine from Harbin Medical University (哈爾濱醫科大學) in China in August 1983. He obtained his master's degree in microbiology and immunology from Wuhan Institute of Biological Products (衛生部武漢生物製品研究所) in China in December 1988. He obtained his doctoral degree in cell and molecular biology from Manchester Metropolitan University in the United Kingdom in November 2007.

Dr. JIN Xiaoping (金小平), aged 47, was appointed as our deputy general manager and chief medical officer in September 2021. He is mainly responsible for the management of clinical development of our Group.

From July 2005 to June 2014, he worked in pre-marketing pharmaceutical clinical development and statistics etc. at pharmaceutical company Daiichi Sankyo Inc. (美國第一三共株式會社). He then served as the scientific director of pharmaceutical company AstraZeneca Biopharmaceutical Company, a company listed on the London Stock Exchange (stock code: AZN), OMX Nordic Exchange (currently known as NASDAQ OMX Group) (stock code: AZN) and New York Stock Exchange (stock code: AZN) from June 2014 to April 2017, and was responsible for setting clinical trial strategies to identify indications, designing clinical trials, managing clinical trials and analyzing relevant clinical data. From May 2017 to August 2021, he served in the group of Akeso, Inc., a company listed on the Stock Exchange (stock code: 09926), first as a vice president and the head of clinical development, and then was promoted as senior vice president in 2020.

Dr. Jin obtained his doctoral degree in biostatistics from School of Public Health, University of Minnesota in the United States in June 2005.

Mr. ZHOU Zejian (周澤劍), aged 41, was appointed as the chief financial officer of our Company and the secretary of the Board in August 2022, and was then appointed as joint company secretary of the Company in January 2023. He is mainly responsible for the management of finance, capital market and securities affairs of our Group. From February 2022 to June 2022, he served as a non-executive Director of our Company, which was designated by IDG Capital, a Pre-IPO investor of our Company.

From November 2017 to July 2022, Mr. Zhou served as a managing director of IDG Capital, where he was mainly responsible for investment. From April 2014 to November 2017, he served as an executive director of Goldman Sachs (China) Securities Company Limited (高盛(中國)證券有限責任公司). Prior to that, he successively worked in China International Capital Corporation Limited (中國國際金融股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601995) and the Stock Exchange (stock code: 03908) and J.P. Morgan First Capital Securities Co., Ltd. (第一創業摩根大通證券有限責任公司).

Mr. Zhou obtained his bachelor's degree in financial management from Renmin University (中國人民大學) in China in July 2004. He obtained his master's degree in finance from Renmin University (中國人民大學) in January 2007.

Mr. GUO Yong (郭永), aged 54, was appointed as our deputy general manager and chief commercial officer in May 2023. He is mainly responsible for the management of sales, marketing, medical affairs and commercial operations of our Group.

From May 1998 to April 2001, he successively served as sales representative and product executive of Eli Lily Asia Inc (美國禮來亞洲公司). From May 2003 to November 2009, he successively served as a senior product manager, market manager and associate market director of Wyeth Pharmaceutical Co., Ltd. (惠氏製藥有限公司). From November 2009 to December 2010, he served as a north China sales director of vaccine of GlaxoSmithKline (China) Investment Company Ltd (葛蘭素史克(中國)投資有限公司). From December 2010 to October 2014, he served as a vice president of Shanghai Roche Pharmaceutical Ltd. (上海羅氏製藥有限公司). From November 2014 to December 2017, he successively held several positions in Eisai China Inc. (衛材中國製藥有限公司) with his last position as a vice president. From January 2018 to January 2021, he served as a vice president and deputy global brand lead in Eisai Inc. in the United States. From February 2021 to October 2022, he served as the chief commercial officer of Everest Medicines Limited (雲頂新耀有限公司), a company listed on the Stock Exchange (stock code: 01952).

Mr. Guo obtained his bachelor's degree in clinical medicine from Fourth Military University (解放軍第四軍醫大學) in China in July 1994. He also obtained his master's degree in business administration from China Europe International Business School (中歐國際工商學院) in October 2011.

The Directors present their report and the audited consolidated financial statements (the "**Consolidated Financial Statements**") of the Group for the Reporting Period.

GLOBAL OFFERING

The Company was established in the PRC as a joint stock company with limited liability on November 22, 2016. On July 11, 2023, the Company was successfully listed on the Main Board of the Stock Exchange following completion of the issue of 22,446,100 H Shares of nominal value of RMB1.00 each at the price of HK$60.60 per Share. The net proceeds arising from the Listing amounted to approximately HK$1,258.9 million (equivalent to approximately RMB1,155.7 million[(10)]).

On August 8, 2023, the Over-allotment Option was exercised in full in respect of an aggregate of 3,366,900 H Shares of nominal value of RMB1.00 each at the price of HK$60.60 per Share. The net proceeds arising from the full exercise of the Over-allotment Option amounted to approximately HK$196 million (equivalent to approximately RMB179.7 million[(11)]).

PRINCIPAL ACTIVITIES

During the Reporting Period, the Group was principally engaged in the research and development, manufacturing and commercialization of novel drugs. There was no significant change in the nature of the Group's principal activities during the Reporting Period and up to the date of this Annual Report.

Particulars of the Company's principal subsidiaries as at December 31, 2023 are set out in Note 13 to the Consolidated Financial Statements.

BUSINESS REVIEW

A review of the Group's business during the Reporting Period, which includes an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the Reporting Period, an indication of likely future developments in the Group's business, and a discussion of the principal risks and uncertainties faced by the Group, can be found in the section headed "Management Discussion and Analysis" of this Annual Report and sub-section headed "Principal Risks and Uncertainties" in this report. The review and discussion form part of this report.

Notes :

(10) Based on the exchange rate of HK$1:RMB0.91803 published by the State Administration of Foreign Exchange of the PRC on July 11, 2023 for illustration purpose.

(11) Based on the exchange rate of HK$1:RMB0.91663 published by the State Administration of Foreign Exchange of the PRC on August 8, 2023 for illustration purpose.

REPORT OF THE DIRECTORS

RESULTS AND DIVIDEND

Details of the results of the Group for the Reporting Period and the Group's financial position as at December 31, 2023 are set out in the Consolidated Financial Statements and their accompanying notes on pages 168 to 238 of this Annual Report.

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2023.

FINANCIAL SUMMARY

The Company's Shares were listed on the Stock Exchange on July 11, 2023. A summary of the published results and of the assets, liabilities and equity of the Group for the last three financial years is set out on page 239 of this Annual Report. This summary does not form part of the Consolidated Financial Statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environmental protection and conducts annual review on environmental, social and governance-related risks and matters relating to the reporting and performance thereof. The Group has not noted any material non-compliance with all relevant laws and regulations in relation to its business including environmental protection, health and safety, workplace conditions, employment and the environment.

The Group has established detailed internal rules regarding environmental protection and adopted effective measures to achieve efficient use of resources, waste reduction and energy saving. For further details of the Group's environmental policies and performance, please refer to the environmental, social and governance report of the Company for the Reporting Period set out on pages 113 to 162 of this Annual Report, which has been prepared in accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix C2 to the Listing Rules.

PRINCIPAL RISKS AND UNCERTAINTIES

The following is a summary of certain principal risks and uncertainties facing the Group, some of which are beyond its control:

- Our business and prospects depend substantially on the success of our drug candidates. If we are unable to successfully complete clinical development, obtain regulatory approvals or achieve commercialization for our drug candidates, or if we experience significant delays or cost overruns in doing any of the foregoing, our business and prospects could be materially and adversely affected.

- We may face intense competition and rapid technological change and the possibility that our competitors may develop therapies that are similar, more advanced, or more effective than ours, which may adversely affect our financial condition and our ability to successfully commercialize our drug candidates.

- Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results.

- We have incurred significant net losses since inception. We anticipate that we will continue to incur net losses and may fail to achieve or maintain profitability in the future.

- We may need to obtain substantial additional financing to fund our operations and expansion, and if we fail to do so, we may be unable to complete the development and commercialization of our drug candidates.

- We have entered into license and collaboration agreements with third parties in the development of our drug candidates, and may seek additional license and collaboration opportunities in the future, and we may not realize the benefits of such partnerships as expected.

- Our rights to develop and commercialize our drug candidates are subject, in part, to the terms and conditions of licenses granted to us by others.

- If we are unable to obtain and maintain adequate patent and other intellectual property protection for our drug candidates throughout the world, or if the scope of such intellectual property rights obtained is not sufficiently broad, third parties could develop and commercialize products and technologies similar or identical to ours and compete directly against us, and our ability to successfully commercialize our drug candidates may be adversely affected.

- All material aspects of the research, development, manufacturing and commercialization of biopharmaceutical products are heavily regulated. Any failure to comply with relevant laws, regulations and industry standards or any adverse actions by the regulatory authorities against us could negatively impact our reputation and our business, financial condition, results of operations and prospects.

- The regulatory approval processes of the NMPA, the FDA and other comparable regulatory authorities are time-consuming and uncertain. If we are unable to obtain without undue delay any regulatory approvals for our drug candidates in our targeted markets, our business may be subject to actual or perceived harm.

- The future commercial success of our drug candidates will depend on the degree of their market acceptance among physicians, patients and others in the medical community.

- Our future success depends in part on our ability to retain our senior management, scientific employees and other qualified personnel.

DIRECTORS

During the Reporting Period and up to the Latest Practicable Date, the Board consists of the following Directors:

Chairman of the Board and Non-executive Director

Mr. LIU Gexin (劉革新) (*Chairman*)

Executive Directors

Dr. GE Junyou (葛均友)
Dr. WANG Jingyi (王晶翼)

Non-executive Directors

Mr. LIU Sichuan (劉思川)
Mr. FENG Hao (馮昊)
Mr. ZENG Xuebo (曾學波)
Mr. LI Dongfang (李東方)

Independent Non-executive Directors

Dr. ZHENG Qiang (鄭強)
Dr. TU Wenwei (涂文偉)
Dr. JIN Jinping (金錦萍)
Dr. LI Yuedong (李越冬)

SUPERVISORY COMMITTEE

During the Reporting Period and up the Latest Practicable Date, the Company has the following Supervisors:

Mr. LAI Degui (賴德貴)
Ms. LIAO Yihong (廖益虹)
Mr. WAN Peng (萬鵬)
Dr. SONG Hongmei (宋宏梅)
Ms. YANG Qiuyan (楊秋艷)
Dr. QING Yan (卿燕)

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors, Supervisors and senior management of the Group are set out on pages 45 to 56 in the section headed "Directors, Supervisors and Senior Management" of this Annual Report. Save as disclosed in this Annual Report, the Directors, Supervisors and senior management of our Group do not have financial, business, family or other material/relevant relationships with one another.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation in writing of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that, as at the date of this Annual Report, all of the independent non-executive Directors are independent.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Pursuant to Rule 3.25 of the Listing Rules and the CG Code, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration of the Directors, Supervisors and senior management is determined and recommended based on their experience, qualification, position and seniority. The Directors, Supervisors and senior management are eligible participants of the applicable share incentive plans.

Details of the remuneration of the Directors, Supervisors, and the five highest paid individuals are set out in Notes 7 and 8 to the Consolidated Financial Statements of this Annual Report.

None of the Directors or Supervisors have waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in the Companies Ordinance) is currently in force for the benefit of the Directors and Supervisors.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the Auxiliary R&D Services Framework Agreement, R&D-related Drugs and Consumables Framework Agreement and the Licensing Agreement disclosed under the sub-section headed "Connected Transactions" in this report, no Director or Supervisor nor an entity connected with him/her had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the Auxiliary R&D Services Framework Agreement, R&D-related Drugs and Consumables Framework Agreement and the Licensing Agreement disclosed under the sub-section headed "Connected Transactions" in this report, none of the Controlling Shareholders have or had a material interest in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the Reporting Period.

DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES OR DEBENTURES

As at the end of the Reporting Period, other than the Pre-IPO Employee Incentive Scheme, none of the Directors, Supervisors or their respective spouses or minor children under the age of 18 years were granted with rights, or had exercised any such rights, to acquire benefits by means of purchasing Shares or debentures of the Company. No member of the Group was a party to any arrangements to enable the Directors, Supervisors or their respective spouses or minor children under the age of 18 years to acquire such rights from any other body corporates.

During the Reporting Period, the Company did not grant any rights to acquire benefits by means of the acquisition of Shares or debentures of the Company to any Directors or Supervisors or their respective spouses or minor children under 18, and none of them has exercised such rights.

NON-COMPETITION UNDERTAKING

Each of Kelun Pharmaceutical and Mr. LIU Gexin (each a Controlling Shareholder) has entered into a deed of non-competition with the Company.

Pursuant to Kelun Pharmaceutical's deed of non-competition, the Remaining Kelun Group has confirmed and undertaken that, among others, it is not directly or indirectly engaged in, and during the period of Kelun Pharmaceutical being a Controlling Shareholder will not directly or indirectly participate in, any business which is the same or similar to, or constitutes direct or indirect competition with, the principal business or principal products of our Group, and it shall procure other enterprises, organizations or institutions controlled by it to comply with Kelun Pharmaceutical's deed of non-competition.

Pursuant to Mr. LIU Gexin's deed of non-competition, Mr. LIU Gexin has confirmed and undertaken that, among others, the enterprises, organizations or institutions controlled by him will not directly or indirectly engage in, and during the period of being a Controlling Shareholder will not directly or indirectly participate in, any business which is the same or similar to, or constitutes direct or indirect competition with, the principal business or principal products of our Group, and he will procure other enterprises, organizations or institutions controlled by him to comply with his deed of non-competition.

The Company has received from Kelun Pharmaceutical and Mr. LIU Gexin a confirmation of their compliance with their respective deed of non-competition during the period from the Listing Date and up to December 31, 2023. The independent non-executive Directors have also reviewed Kelun Pharmaceutical and Mr. LIU Gexin's compliance with the Deed of Non-Competition since the Listing Date and up to December 31, 2023.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

Since the Listing Date and up to December 31, 2023, none of the Directors and Supervisors or their respective close associates (as defined in the Listing Rules) has interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2023, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, Supervisors and chief executive(s) of the Company are taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Interest in the Shares of the Company

Name of Director, Supervisor or chief executive	Position	Nature of Interest	Number and types of Shares held[1]	Approximate percentage of shareholding in the relevant class of Shares[1] (%)	Approximate percentage of shareholding in the total issued Shares[1] (%)
LIU Gexin	Chairman of the Board and non-executive Director	Interest in controlled corporation[2]	70,560,543 H Shares (L)[2]	55.72	32.19
		Interest in controlled corporation[3]	78,777,842 Unlisted Shares (L)[3]	85.10	35.94
WANG Jingyi	Executive Director	Beneficial owner	2,850,000 H Shares (L)	2.25	1.30
		Beneficial owner	2,850,000 Unlisted Shares (L)	3.08	1.30
GE Junyou	Executive Director and general manager	Other[4]	630,000 H Shares (L)[4]	0.50	0.29
		Other[4]	1,470,000 Unlisted Shares (L)[4]	1.59	0.67
FENG Hao	Non-executive Director	Other[5]	126,000 H Shares (L)[5]	0.10	0.06
		Other[5]	294,000 Unlisted Shares (L)[5]	0.32	0.13
LAI Degui	Chairman of the Supervisory Committee and Supervisor	Other[6]	126,000 H Shares (L)[6]	0.10	0.06
		Other[6]	294,000 Unlisted Shares (L)[6]	0.32	0.13
LIAO Yihong	Supervisor	Other[7]	51,000 H Shares (L)[7]	0.04	0.02
		Other[7]	119,000 Unlisted Shares (L)[7]	0.13	0.05
SONG Hongmei	Supervisor	Other[8]	135,000 H Shares (L)[8]	0.11	0.06
		Other[8]	315,000 Unlisted Shares (L)[8]	0.34	0.14
YANG Qiuyan	Supervisor	Other[9]	96,000 H Shares (L)[9]	0.08	0.04
		Other[9]	224,000 Unlisted Shares (L)[9]	0.24	0.10
QING Yan	Supervisor	Other[10]	120,000 H Shares (L)[10]	0.09	0.05
		Other[10]	280,000 Unlisted Shares (L)[10]	0.30	0.13

Notes:

(1) As at December 31, 2023, the Company had a total of 219,195,499 issued Shares, consisting of (i) 92,571,094 Unlisted Shares, comprising 87,157,052 Domestic Shares and 5,414,042 Unlisted Foreign Shares, and (ii) 126,624,405 H Shares.

(2) Mr. LIU Gexin is deemed as the actual controller of Sichuan Kelun Pharmaceutical Co., Ltd. ("**Kelun Pharmaceutical**"). Kelun Pharmaceutical is interested in a total of 70,560,543 H Shares, comprising (i) 57,777,843 H Shares directly held as beneficial owner; (ii) 3,782,700 H Shares held by Kelun International Development Co., Limited ("**Kelun International**"), a wholly-owned subsidiary of Kelun Pharmaceutical and (iii) 9,000,000 H Shares held by the four Employee Incentive Platforms, the general partner of which is Chengdu Kelun Jingchuan Technology Co., Ltd. ("**Kelun Jingchuan**"), a wholly-owned subsidiary of Kelun Pharmaceutical.

(3) Mr. LIU Gexin is deemed as the actual controller of Kelun Pharmaceutical. Kelun Pharmaceutical is interested in a total of 78,777,842 Unlisted Shares, comprising (i) 57,777,842 Unlisted Shares directly held as beneficial owner and (ii) 21,000,000 Unlisted Shares held by the four Employee Incentive Platforms, the general partner of which is Kelun Jingchuan, a wholly-owned subsidiary of Kelun Pharmaceutical.

(4) Dr. GE Junyou has been granted share awards under the Pre-IPO Employee Incentive Scheme held by Chengdu Kelun Huicai Enterprise Management Center Limited Partnership (成都科倫匯才企業管理中心(有限合夥) ("**Kelun Huicai**"), one of the Employee Incentive Platforms. Kelun Huicai held a total of 2,250,000 H Shares and 5,250,000 Unlisted Shares. Dr. GE Junyou held 28.00% partnership interest in Kelun Huicai, corresponding to 630,000 H Shares and 1,470,000 Unlisted Shares.

(5) Mr. FENG Hao has been granted share awards under the Pre-IPO Employee Incentive Scheme held by Kelun Huicai, one of the Employee Incentive Platforms. Kelun Huicai held a total of 2,250,000 H Shares and 5,250,000 Unlisted Shares. Mr. FENG Hao held 5.60% partnership interest in Kelun Huicai, corresponding to 126,000 H Shares and 294,000 Unlisted Shares.

(6) Mr. LAI Degui has been granted share awards under the Pre-IPO Employee Incentive Scheme held by Kelun Huicai, one of the Employee Incentive Platforms. Kelun Huicai held a total of 2,250,000 H Shares and 5,250,000 Unlisted Shares. Mr. LAI Degui held 5.60% partnership interest in Kelun Huicai, corresponding to 126,000 H Shares and 294,000 Unlisted Shares.

(7) Ms. LIAO Yihong has been granted share awards under the Pre-IPO Employee Incentive Scheme held by Kelun Huicai, one of the Employee Incentive Platforms. Kelun Huicai held a total of 2,250,000 H Shares and 5,250,000 Unlisted Shares. Ms. LIAO Yihong held 2.27% partnership interest in Kelun Huicai, corresponding to 51,000 H Shares and 119,000 Unlisted Shares.

(8) Dr. SONG Hongmei has been granted share awards under the Pre-IPO Employee Incentive Scheme held by Chengdu Kelun Huizhi Enterprise Management Center Limited Partnership (成都科倫匯智企業管理中心(有限合夥)) ("**Kelun Huizhi**"), one of the Employee Incentive Platforms. Kelun Huizhi held a total of 2,250,000 H Shares and 5,250,000 Unlisted Shares. Dr. SONG Hongmei held 6.00% partnership interest in Kelun Huizhi, corresponding to 135,000 H Shares and 315,000 Unlisted Shares.

(9) Ms. YANG Qiuyan has been granted share awards under the Pre-IPO Employee Incentive Scheme held by Chengdu Kelun Huineng Enterprise Management Center Limited Partnership (成都科倫匯能企業管理中心(有限合夥)) ("**Kelun Huineng**"), one of the Employee Incentive Platforms. Kelun Huineng held a total of 2,250,000 H Shares and 5,250,000 Unlisted Shares. Ms. YANG Qiuyan held 4.27% partnership interest in Kelun Huineng, corresponding to 96,000 H Shares and 224,000 Unlisted Shares.

(10) Dr. QING Yan has been granted share awards under the Pre-IPO Employee Incentive Scheme held by Kelun Huicai, one of the Employee Incentive Platforms. Kelun Huicai held a total of 2,250,000 H Shares and 5,250,000 Unlisted Shares. Dr. QING Yan held 5.33% partnership interest in Kelun Huicai, corresponding to 120,000 H Shares and 280,000 Unlisted Shares.

(L) Long position.

(b) Interest in the shares of associated corporations

Name of associated corporation	Name of Director	Position	Nature of Interest	Number of shares held in the associated corporation	Approximate percentage of shareholding in the total issued share capital of the associated corporation (%)
Kelun Pharmaceutical [2]	LIU Gexin	Chairman of the Board and non-executive Director	Beneficial owner	379,128,280 (L)	25.29 [1]
	LIU Sichuan	Non-executive Director	Beneficial owner	8,346,286 (L)	0.56 [1]
	FENG Hao	Non-executive Director	Beneficial owner	511,068 (L)	0.03 [1]
Zhejiang Keyun [3]	FENG Hao	Non-executive Director	Beneficial owner	2,000,000 (L)	10.00 [5]
			Interest in controlled corporation [4]	3,200,000 (L) [4]	16.00 [5]

Notes:

(1) As at December 31, 2023, Kelun Pharmaceutical had a total of 1,499,102,945 issued Shares.

(2) Kelun Pharmaceutical is the holding company of the Company and therefore an associated corporation of the Company.

(3) Zhejiang Keyun IOT Technology Co., Ltd. (浙江科運物聯科技有限公司) ("**Zhejiang Keyun**") is a subsidiary of Kelun Pharmaceutical and therefore an associated corporation of the Company.

(4) Each of Lishui Keyun Yaotong Logistics Technology Limited Partnership (麗水市科運耀通物流科技合夥企業(有限合夥)) ("**Keyun Yaotong**") and Lishui Keyun Rentong Logistics Technology Limited Partnership (麗水市科運仁通物流科技合夥企業(有限合夥)) ("**Keyun Rentong**") held RMB1,600,000 registered capital of Zhejiang Keyun. Mr. FENG Hao held 50% partnership interest in each of Keyun Yaotong and Keyun Rentong and is therefore deemed to be interested in the registered capital of Zhejiang Keyun held by Keyun Yaotong and Keyun Rentong.

(5) As at December 31, 2023, Zhejiang Keyun had a total of RMB20,000,000 registered capital.

(L) Long position.

Save as disclosed above, as at December 31, 2023, none of the Directors, Supervisors and chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

To the best knowledge of the Company based on public information, as at December 31, 2023, the interests or short positions of the following persons (other than the Directors, Supervisors and chief executives of the Company) in the Shares or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which any such persons other than the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Nature of Interest	Number and class of Shares held[1]	Approximate percentage of shareholding in the relevant class of Shares[1] (%)	Approximate percentage of shareholding in the total share capital of our Company[1] (%)
Kelun Pharmaceutical	Beneficial owner	57,777,843 H Shares (L)	45.63	26.36
	Interest in controlled corporations[2]	12,782,700 H Shares (L)[2]	10.09	5.83
	Beneficial owner[3]	57,777,842 Unlisted Shares (L)[3]	62.41	26.36
	Interest in controlled corporation[3]	21,000,000 Unlisted Shares (L)[3]	22.69	9.58
Kelun Jingchuan	Interest in controlled corporations[4]	9,000,000 H Shares (L)[4]	7.11	4.11
	Interest in controlled corporations[4]	21,000,000 Unlisted Shares (L)[4]	22.69	9.58
Kelun Huicai	Beneficial owner	5,250,000 Unlisted Shares (L)	5.67	2.40
Kelun Huide	Beneficial owner	5,250,000 Unlisted Shares (L)	5.67	2.40
Kelun Huineng	Beneficial owner	5,250,000 Unlisted Shares (L)	5.67	2.40
Kelun Huizhi	Beneficial owner	5,250,000 Unlisted Shares (L)	5.67	2.40
Merck & Co., Inc.[5]	Interest in controlled corporation[5]	13,443,693 H Shares (L)	10.62	6.13
Merck Sharp & Dohme LLC[5]	Beneficial owner	13,443,693 H Shares (L)	10.62	6.13

Notes:

(1) As at December 31, 2023, the Company had a total of 219,195,499 issued Shares, consisting of (i) 92,571,094 Unlisted Shares, comprising 87,157,052 Domestic Shares and 5,414,042 Unlisted Foreign Shares, and (ii) 126,624,405 H Shares.

(2) Kelun Pharmaceutical is interested in a total of 70,560,543 H Shares, comprising (i) 57,777,843 H Shares directly held as beneficial owner; (ii) 3,782,700 H Shares held by Kelun International, a wholly-owned subsidiary of Kelun Pharmaceutical and (iii) 9,000,000 H Shares held by the four Employee Incentive Platforms, the general partner of which is Kelun Jingchuan, a wholly-owned subsidiary of Kelun Pharmaceutical.

(3) Kelun Pharmaceutical is interested in a total of 78,777,842 Unlisted Shares, comprising (i) 57,777,842 Unlisted Shares directly held as beneficial owner and (ii) 21,000,000 Unlisted Shares held by the four Employee Incentive Platforms, the general partner of which is Kelun Jingchuan, a wholly-owned subsidiary of Kelun Pharmaceutical.

(4) Kelun Jingchuan is the general partner of the four Employee Incentive Platforms, which in aggregate held 9,000,000 H Shares and 21,000,000 Unlisted Shares.

(5) Merck Sharp & Dohme LLC is a wholly-owned subsidiary of Merck & Co., Inc., a company listed on the New York Stock Exchange (stock code: MRK).

(L) Long position.

Save as disclosed above, as at December 31, 2023, no person (other than the Directors, Supervisor and chief executives of the Company as set out in the paragraph headed "Directors', Supervisors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and debentures of the Company and its Associated Corporations" in this report) had any interests or short positions in the Shares or underlying Shares of the Company which were required to be notified to the Company or the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PRE-IPO EMPLOYEE INCENTIVE SCHEME

The Pre-IPO Employee Incentive Scheme was adopted and approved by resolutions in writing by the Board in 2016, and was further revised in May 2020 and January 2023. The purpose of the Pre-IPO Employee Incentive Scheme is to provide equity incentives for core employees to attract and recruit skilled personnel, in order to fully mobilize the enthusiasm of core employees, ensure stability, motivation and long-term core R&D personnel's labor relationships and aligning core employees' interest with the long-term development of the Company. The Pre-IPO Employee Incentive Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as it will not involve the grant of new options or awards by the Company after the Listing.

The Company has established four employee incentive platforms, namely Kelun Huicai, Kelun Huide, Kelun Huineng and Kelun Huizhi (the "**Employee Incentive Platforms**"), in the form of limited partnerships. As at December 31, 2023, the four Employee Incentive Platforms, in aggregate, held 30,000,000 Shares.

The following is a summary of the principal terms of the Pre-IPO Employee Incentive Scheme.

1. Summary of terms

(a) Purpose

For the purpose of quickly attracting and recruiting high-end talents, fully mobilizing the enthusiasm of our core employees, ensuring stability, motivation and long-term core R&D personnel's labor relationships, accelerating the development process of products candidates, encouraging core employees to work hard and aligning their interest with the long-term development of our Company, the Company provides equity incentives for core employees.

(b) Form of Scheme

Participants, as partners of the Employee Incentive Platforms which are in the form of limited partnerships, shall subscribe for the capital contribution of the limited partnership interest according to the amount approved by the equity incentive management committee (the "**Equity Incentive Management Committee**"), and make the corresponding payment in accordance with the arrangement of the Equity Incentive Management Committee, thereby indirectly holding the shares of the Company by virtue of their capacity as a limited partner of the relevant Employee Incentive Platform.

(c) Participants

The participants include the senior management, key technical personnel and other core employees, directors, supervisors or consultants of the Company, Sichuan Konas and KLUS PHARMA (the "**Participants**"). The Equity Incentive Management Committee shall determine or adjust the scope of Participants and the incentive shares after considering factors such as the employee's working years, on-boarding situations, annual appraisal performance, nature of the job, seniority, and sense of corporate identity.

(d) Total Number of Incentive Shares

Participants shall hold a total of 30,000,000 shares of the Company through the limited partnerships, which means that four limited partnerships serving as the Employee Incentive Platforms shall hold a total of 30,000,000 shares of the Company, corresponding to the capital of the Company of RMB30 million.

(e) Subscription Price of the Incentive Shares

The subscription price of the incentive shares is based on comprehensive consideration of factors and is determined by the Equity Incentive Management Committee according to the following principles:

The subscription price for the first batch of Participants to subscribe and pay for the incentive shares in 2017 is RMB1.00 per share, and the price for subsequent batches of Participants to subscribe and pay for the incentive shares is calculated as: RMB1.00 * (1+6%*N) ("N" refers to the number of years, "N" is calculated by the calendar year in which such Participants were granted incentive shares for the first time less 2017).

(f) Payment of Incentive Share Price

Participants must subscribe for the incentive shares in cash, and should ensure that their source of funds is genuine and lawful.

The subscription period of the incentive shares shall be determined by the Equity Incentive Management Committee. Participants shall make the corresponding payment for incentive shares fully and timely. Participants who fail to pay or pay less than the corresponding price as stated in the notice of grant issued by the Equity Incentive Management Committee are deemed to give up the opportunity to subscribe for the incentive shares. The Equity Incentive Management Committee has the right to adjust or revoke the qualifications of Participants, and return the paid principal (without interest).

(g) Distribution Method of the Incentive Shares

(1) **Original distribution**: Based on the factors such as the current working years and previous performance, the Equity Incentive Management Committee will determine the scope of Participants and the number of the incentive shares. Unless approved by the Equity Incentive Management Committee, the cumulative incentive shares held by a single natural person through this method shall not exceed 0.5% of the total incentive shares. The employees who have obtained the original distribution shares are regarded as the first batch of Participants, and shall make the payment in installments and are deemed to have obtained the incentive shares at the establishment of the limited partnerships.

(2) **Annual appraisal distribution**: According to the annual appraisal by the Company and associated subsidiaries, the Equity Incentive Management Committee has the right to decide to add new Participants or increase the number of the incentive shares of existing Participants every year.

(3) Unless approved by the Equity Incentive Management Committee, the cumulative incentive shares held by a single natural person shall not exceed 1% of the total incentive shares subscribed through the original distribution and annual appraisal distribution.

(h) Distribution Procedures of the Incentive Shares

The Equity Incentive Management Committee is responsible for the distribution of the incentive shares. In general, the distribution procedures are as follows:

(1) The Equity Incentive Management Committee decides the specific conditions for eligible Participants, the allocation of the incentive shares among different internal departments and divisions, the preliminary grantee list and the number of shares proposed to be granted.

(2) The management of relevant departments of the Company and its subsidiaries is responsible for formulating departmental allocation plans, selecting the Participants from the lists, determining the number of incentive shares, and submitting the departmental allocation plans to the Equity Incentive Management Committee.

(3) The Equity Incentive Management Committee is responsible for making the final decisions about the selected Participants and number of the incentive shares to be granted to each selected Participants.

(4) The selected Participants shall sign relevant legal documents and pay the subscription price in accordance with the arrangement and instructions of the Equity Incentive Management Committee.

(i) Obligations of Participants

The main obligations of Participants are as follows:

(1) The incentive shares held by Participants shall be locked up for a period of 4 years from the effective date of the incentive shares grant agreement (the "**Incentive Shares Grant Agreement**"). During the 4-year lock-up period, Participants are not allowed to transfer the incentive shares to any third party, nor use the incentive shares for guarantee or repayment of debts. During the lock-up period, if Participants rescind or terminate the labor or business relationship with the Company or its subsidiaries, Participants shall follow the relevant arrangements to cooperate with the executive partner to go through the relevant procedures for repurchasing their incentive shares. Participants shall voluntarily commit to continuing to hold the incentive shares for more than 1 year after the expiration of the lock-up period.

(2) Individual income tax arising from withdrawal, holding or transfer of the incentive shares, dividends or other activities shall be borne by Participants themselves.

(3) Participants are obliged to abide by other relevant administration measures formulated by Kelun Pharmaceutical and the Company at the general meetings, the meetings of board of directors and the meetings of the Equity Incentive Committee.

(j) Arrangements for Participants Resigning during the Lock-up Period

During the lock-up period, if Participants rescind or terminate the labor or service contracts with the Company or its subsidiaries, Participants shall transfer all their incentive shares to the executive partner or its designated third party according to the requirements of the executive partner. Such incentive shares transferred to the executive partner or the designated third party shall be used in accordance with the decision of the Equity Incentive Management Committee.

(k) Overall Repurchase of the Incentive Shares

For the incentive shares held by Participants, Kelun Pharmaceutical or its subsidiaries shall have the right to repurchase relevant incentive shares as a whole according to business needs. Overall repurchase can be done all in one time or in batches.

When conducting the overall repurchase, appropriate methods such as issuing shares to purchase assets, repurchasing in cash, or a combination of these two methods may be adopted. When necessary, an independent third-party financial consultant or valuer could be engaged to assess the fair valuation of the relevant incentive shares.

(l) Adjustment to the Pre-IPO Employee Incentive Scheme

When the number of Participants, fundraising methods and incentive methods may raise regulatory concern or affect the long-term development of the Company's overall interests, Kelun Pharmaceutical and the Company have the right to make corresponding adjustments to the effective documents of the Employee Incentive Scheme and other incentive management measures provided that such adjustments comply with the principles of fairness, justice, win-win and order.

(m) Equity Incentive Management Committee

The Equity Incentive Management Committee is responsible for the daily decision-making, management and execution of employee equity incentive matters. The Equity Incentive Management Committee is composed of five members, elected by and responsible to the Board. The Equity Incentive Management Committee is responsible for the following matters:

(1) handling specific matters such as the selection of Participants, determination of allocated shares, and payment arrangements for the incentive shares in line with the Board;

(2) daily management of agreements and documents;

(3) formulating and revising the rules of procedure of the Equity Incentive Management Committee; and

(4) other matters concerning the Equity Incentive Management Committee.

2. Incentive Shares Granted

As at December 31, 2023, awards corresponding to a total of 23,591,250 Shares, representing approximately 78.64% of the total Shares under the Pre-IPO Employee Incentive Scheme, have been granted to the Participants. Save as disclosed below, no awards have been granted to other connected persons of our Group.

Details of the incentive shares granted to the Directors, Supervisors and senior management under the Pre-IPO Employee Incentive Scheme are set out below:

Name	Position	Relevant Employee Incentive Platforms	Approximate partnership interests of the Employee Incentive Platforms	Approximate number of shares corresponding to awards held by the Employee Incentive Platforms	Approximate shareholding percentage corresponding to awards in the total number of shares in issue as at December 31, 2023
Dr. GE Junyou (葛均友)	Executive Director and general manager	Kelun Huicai	28.00%	2,100,000	0.96%
Mr. FENG Hao (馮昊)	Non-executive Director	Kelun Huicai	5.60%	420,000	0.19%
Mr. LAI Degui (賴德貴)	Chairman of the Supervisory Committee and Supervisor	Kelun Huicai	5.60%	420,000	0.19%
Ms. LIAO Yihong (廖益虹)	Supervisor	Kelun Huicai	2.27%	170,000	0.08%
Dr. SONG Hongmei (宋宏梅)	Supervisor	Kelun Huizhi	6.00%	450,000	0.21%
Ms. YANG Qiuyan (楊秋艷)	Supervisor	Kelun Huineng	4.27%	320,000	0.15%
Dr. QING Yan (卿燕)	Supervisor	Kelun Huicai	5.33%	400,000	0.18%
Mr. FENG Yi (馮毅)	Deputy general manager, chief strategy officer and senior vice president	Kelun Huicai	16.00%	1,200,000	0.55%
Dr. ZHANG Yiwei (張一偉)	Deputy general manager	Kelun Huineng	4.67%	350,000	0.16%
Dr. TAN Xiangyang (譚向陽)	Deputy general manager and chief scientific officer	Kelun Huineng	4.67%	350,000	0.16%
Dr. JIN Xiaoping (金小平)	Deputy general manager and chief medical officer	Kelun Huineng	8.00%	600,000	0.27%
Mr. ZHOU Zejian (周澤劍)	Chief financial officer and joint company secretary	Kelun Huide	12.27%	920,000	0.42%
Mr. GUO Yong (郭永)	Deputy general manager and chief commercial officer	Kelun Huide	5.33%	400,000	0.18%

CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which constitute partially exempt or non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in respect of certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules.

The following transactions constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules and are required to be disclosed in this Annual Report in accordance with Rule 14A.71 of the Listing Rules:

Continuing connected transaction	Date of signing of agreement	Commencement date of term of agreement	Connected person	Description and purpose of the transaction	Annual cap for the year ended December 31, 2023 RMB'000	Actual transaction value for the year ended December 31, 2023[1] RMB'000
Auxiliary R&D Services Framework Agreement	June 1, 2023	Listing Date	Kelun Pharmaceutical (including its subsidiaries other than our Group)	Procurement of auxiliary R&D services and goods from Kelun Pharmaceutical (including its subsidiaries other than our Group)	22,000	11,369
				Provision of auxiliary R&D services from our Group	16,000	2,597
R&D-related Drugs and Consumables Framework Agreement	June 1, 2023	Listing Date	China Resources Kelun (Sichuan) Medicine Limited (華潤科倫醫藥(四川)有限公司) ("**China Resources Kelun**") (including its subsidiaries)[2]	Procurement of R&D-related drugs and consumables from China Resources Kelun	20,000	3,922
Licensing Agreement	January 12, 2017	January 12, 2017	Kelun Research Institute (including its subsidiaries)	Grant of exclusive license rights to us to globally promote and commercialize A167	Determined by a formula in accordance with the terms set out in the Licensing Agreement	0

Notes:

(1) In relation to the Auxiliary R&D Services Framework Agreement and the R&D-related Drugs and Consumables Framework Agreement, the transaction value is for the period commencing from the commencement date of the term of the relevant agreement to December 31, 2023.

(2) Formerly named Sichuan Kelun Medicine & Trade Group Co., Ltd. (四川科倫醫藥貿易集團有限公司).

The detailed terms of the continuing connected transactions are as follows:

Auxiliary R&D Services Framework Agreement

We have historically procured auxiliary R&D services and goods, which include process development and optimization, sample purification, crystallization screening, GMP batch release testing, packing material and releasing testing from Kelun Pharmaceutical and its subsidiaries, excluding our Group (the "**Remaining Kelun Group**"), and have provided auxiliary R&D services, which include preclinical animal studies (including toxicology, pharmacokinetics, pharmacodynamic and screening studies), clinical biostatistics, data management, quality control and clinical audit, and other supporting services, to the Remaining Kelun Group (collectively, the "**Auxiliary R&D Services**") from time to time in our ordinary and usual course of business. We intend to continue such procurement of services and goods and provision of services with the Remaining Kelun Group after the Listing. On June 1, 2023, our Company and Kelun Pharmaceutical (for itself and on behalf of the Remaining Kelun Group) entered into a framework agreement in relation to the procurement of the Auxiliary R&D Services (the "**Auxiliary R&D Services Framework Agreement**"), pursuant to which Kelun Pharmaceutical (for itself and on behalf of the Remaining Kelun Group) agreed to provide and procure the Auxiliary R&D Services to/from our Group. Kelun Pharmaceutical is one of our Controlling Shareholders.

The term of the Auxiliary R&D Services Framework Agreement commenced from the Listing Date and will continue until December 31, 2025 (both days inclusive). Subject to compliance with Listing Rules and applicable laws and regulations, the Auxiliary R&D Services Framework Agreement may be renewed for a further term of three years from time to time, unless either party notifies the other party to the contrary with three months' written notice prior to the expiry of the agreement's term. Upon renewal of the Auxiliary R&D Services Framework Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

Pricing

The services fees have been and will be based on cost-plus basis according to (i) the actual cost of provisions of such services (such as the labor cost and the cost of consumables used for providing the services); plus (ii) the agreed margin rates. The margin rates are determined through arm's length negotiation with reference to the range between the lower quartile and the upper quartile of the three-year weighted average cost-plus-margins of comparable companies offering similar services as stated in a transfer pricing analysis report prepared by an independent certified public accountant. Such margin rates may be changed from time to time and shall not be deemed to be the fixed rate for the transactions throughout the term of the Auxiliary R&D Services Framework Agreement.

Annual caps and actual amount

For the three years ending December 31, 2023, 2024 and 2025, the annual caps for the amounts payable by our Group to the Remaining Kelun Group in respect of the procurement of the Auxiliary R&D Services under the Auxiliary R&D Services Framework Agreement are RMB22,000,000, RMB18,000,000 and RMB15,000,000, respectively. For the period commencing from the commencement date of the term of the agreement (being the Listing Date) to December 31, 2023, the actual amount paid or payable by our Group to the Remaining Kelun Group under the Auxiliary R&D Services Framework Agreement was RMB11,369,000.

For the three years ending December 31, 2023, 2024 and 2025, the annual caps for the amounts payable by the Remaining Kelun Group to us in respect of the provision of the Auxiliary R&D Services under the Auxiliary R&D Services Framework Agreement are RMB16,000,000, RMB16,000,000 and RMB16,000,000, respectively. For the period commencing from the commencement date of the term of the agreement (being the Listing Date) to December 31, 2023, the actual amount paid or payable by the Remaining Kelun Group to us under the Auxiliary R&D Services Framework Agreement was RMB2,597,000.

R&D-related Drugs and Consumables Framework Agreement

We have historically procured R&D-related drugs and consumables (the "**R&D-related Drugs and Consumables**") from China Resources Kelun and its subsidiaries from time to time in our ordinary course of business. R&D-related Drugs and Consumables primarily include clinical comparator drugs which are used in clinical trials to compare the efficacy of an investigational drug to the efficacy of an existing treatment and medical consumables including protective equipment and laboratory supplies. We intend to continue such procurement with China Resources Kelun after the Listing for clinical trial. On June 1, 2023, our Company and China Resources Kelun entered into a framework agreement in relation to the procurement of the R&D-related Drugs and Consumables (the "**R&D-related Drugs and Consumables Framework Agreement**"), pursuant to which our Group agreed to purchase the R&D-related Drugs and Consumables from China Resources Kelun (for itself and on behalf of its subsidiaries, China Resources Kelun and its subsidiaries collectively referred to as "**China Resources Kelun Group**"). Mr. Liu Sichuan, a director of China Resources Kelun, serves as a director of our Company. Therefore, China Resources Kelun is an associate of Mr. LIU Sichuan and a connected person to us.

The term of the R&D-related Drugs and Consumables Framework Agreement commenced from the Listing Date and will continue until December 31, 2025 (both days inclusive). Subject to compliance with Listing Rules and applicable laws and regulations, the R&D-related Drugs and Consumables Framework Agreement may be renewed for a further term of three years from time to time, unless either party notifies the other party to the contrary with three months' written notice prior to the expiry of the agreement's term. Upon renewal of the R&D-related Drugs and Consumables Framework Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

Pricing

The prices payable by us for procuring the R&D-related Drugs and Consumables have been and will be determined through arm's length negotiation primarily based on the production cost of the R&D-related Drugs and Consumables, the sales price to external third parties and our procurement volume, with reference to a number of factors applicable to all suppliers, including but not limited to the prevailing market price of the relevant drugs and consumables of same quality, specifications of the products, delivery capability, response time and the fees charged for historical transactions of similar nature.

Annual caps and actual amount

For the three years ending December 31, 2023, 2024 and 2025, the annual caps for the amounts payable by our Group to China Resources Kelun Group in respect of the procurement of the R&D-related Drugs and Consumables under the R&D-related Drugs and Consumables Framework Agreement are RMB20,000,000, RMB40,000,000 and RMB30,000,000, respectively. For the period commencing from the commencement date of the term of the agreement (being the Listing Date) to December 31, 2023, the actual amount paid or payable by our Group to China Resources Kelun Group was RMB3,922,000.

Licensing Agreement

Kelun Research Institute, a wholly-owned subsidiary of Kelun Pharmaceutical, as the licensor, and our Company, as the licensee, entered into a patent and technology license agreement in relation to A167 (the "**Licensing Agreement**") on January 12, 2017, pursuant to which Kelun Research Institute agreed to grant exclusive license rights to us to globally promote and commercialize A167 (the "**Licensed Product**"). Kelun Research Institute is a wholly-owned subsidiary of Kelun Pharmaceutical and a connected person to us.

In May 2017, Kelun Research Institute transferred the patent in relation to A167 (the "**A167 Patent**") to the Company at nil consideration, while retaining certain non-patent technologies. To reflect (i) the licensing of the non-parent technologies by Kelun Research Institute; and (ii) the economic interests of the transferred A167 Patent and its future commercialization value, the Company and Kelun Research Institute agreed to continue the Licensing Agreement.

Under the Licensing Agreement, we do not need to pay any upfront payment to Kelun Research Institute. However, we need to share with Kelun Research Institute the profit derived from the sale of the Licensed Product after its commercialization (the "**Profit Sharing**"). The Profit Sharing was determined after arms' length negotiations between our Group and the Kelun Research Institute with reference to various factors, including but not limited to the costs and risk of development of the Licensed Product, expected prospects of the development and commercialization of the Licensed Product and the reasons for and benefits of the transactions contemplated under the Licensing Agreement. The term of the Licensing Agreement commenced on the date of the agreement and continues to be in force and effect until the expiration date of the patent of the Licensed Product, being March 1, 2037.

Rule 14A.52 of the Listing Rules provides that the period for the agreement of a continuing connected transaction must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. Our Directors are of the view that the nature of Licensing Agreement requires a longer period commencing from the date of the agreement and continue to be in force until the expiration date of the patent of the Licensed Product, being March 1, 2037, on the grounds that: (i) the Licensing Agreement allowed our Group and Kelun Research Institute to spread the risks and costs associated with the marketing and sales of the Licensed Product and to better deploy their respective resources and established capabilities to expeditiously establish an advantageous position in relevant markets. Imposing a restriction on the term of the Licensing Agreement for a period of three years would deviate from the market prevailing practice and be contrary to the business intention of the parties; (ii) such a long-term cooperation is in the interest of our Company and the Shareholders as a whole; and (iii) as confirmed by Frost & Sullivan, the term of the Licensing Agreement, which exceeds three years, is in line with the industry prevailing practice.

Pricing

The payment receivable by the Kelun Research Institute from us for Profit Sharing pursuant to the Licensing Agreement will be determined in accordance with the following formula:

Sales within the PRC

Amount receivable by Kelun Research Institute under Profit Sharing = net sales revenue[1] *x* percentage of the profit sharing ratio[2]

Sales outside the PRC

Amount receivable by Kelun Research Institute under Profit Sharing = net sales revenue[1] *x* 6%

Notes:

1. The net sales revenue refers to the revenue generated from the sales of products excluding packing and shipping fees, relevant tax, advertising fees and commercial discounts.

2. The profit sharing rate will be no more than 4% and will be determined based on the NDA filing status of the Licensed Product as compared to that of its competitors in the market.

Annual caps and actual amount

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 14A.53 of the Listing Rules so as to allow us to set the annual caps in relation to continuing connected transactions under the Licensing Agreement as the formula in accordance with the terms as set out in the Licensing Agreement. For details of the grounds for the waiver sought, please refer to the section headed "Connected Transactions – NON-EXEMPT CONTINUING CONNECTED TRANSACTION – Licensing Agreement – Caps on Future Transaction Amounts" in the Prospectus.

The waiver is for a term of three years ending on December 31, 2025. The Company will, after taking into account, among other things, the addressable market, the drug pricing and the historical transaction amount of the relevant products, re-assess whether a further waiver is required at the expiry of such initial term.

For the year ended December 31, 2023, the amount paid or payable by us to Kelun Research Institute in respect of the grant of exclusive license rights to us to globally promote and commercialize A167 under the Licensing Agreement as determined by the formula in accordance with the terms as set out in the Licensing Agreement was RMB0.

Confirmation of the auditor

In accordance with Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued a letter to the Board confirming that in respect of the continuing connected transactions ended December 31, 2023:

i. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

ii. for transactions involving the provision of goods or services by the Group, nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group.

iii. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

iv. with respect to the aggregate amount of each of the continuing connected transactions set out in the above list of continuing connected transactions, nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

Confirmation of the independent non-executive Directors

The independent non-executive Directors had reviewed the above continuing connected transactions and confirmed that such transactions were entered into:

i. in the ordinary and usual course of the Group's business;

ii. on normal commercial terms or better to the Company; and

iii. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Save as disclosed above, since the Listing Date and up to December 31, 2023, the Group did not enter into any other transactions which constituted connected transactions or continuing connected transactions that were subject to annual review and reporting requirements under Chapter 14A of the Listing Rules, and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Save as disclosed in the sub-section headed "Connected Transactions" in this report, none of the related party transactions disclosed in Note 30 to the Consolidated Financial Statements constitute connected transactions or continuing connected transactions which are required to be disclosed pursuant to Chapter 14A of the Listing Rules.

RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to this retirement benefits schemes is to make the specified contributions.

Details of the pension obligations of the Company are set out in Note 5(b) to the Consolidated Financial Statements in this Annual Report. During the Reporting Period, no forfeited contributions had been used by the Group to reduce the existing level of contributions.

SHARE CAPITAL

The Company received a filing notice dated November 13, 2023 issued by the CSRC in respect of the implementation of the full circulation of H Shares for an aggregate of 62,567,234 Domestic Shares and Unlisted Foreign Shares. On November 16, 2023, the Stock Exchange granted approval for the listing of and the permission to deal in 62,567,234 H Shares (the "**Converted H Shares**"), representing the total number of Domestic Shares and Unlisted Foreign Shares to be converted to H Shares. On November 24, 2023, the conversion of 62,567,234 Domestic Shares and Unlisted Foreign Shares was completed and the listing of the Converted H Shares on the Stock Exchange commenced on November 27, 2023. For more related details, please refer to the Company's announcements dated November 14, 2023, November 17, 2023 and November 24, 2023.

Details of the movements in share capital of the Company during the Reporting Period are set out in Note 27(c) to the Consolidated Financial Statements in this Annual Report.

DISTRIBUTABLE RESERVES

As at December 31, 2023, the Company did not have any distributable reserves.

USE OF NET PROCEEDS FROM GLOBAL OFFERING AND OVER-ALLOTMENT OPTION

The Company received net proceeds of approximately HK$1,258.9 million (equivalent to approximately RMB1,155.7 million[12]) from the Global Offering. On August 8, 2023, the Company also received net proceeds of approximately HK$196 million (equivalent to approximately RMB179.7 million[13]) from the full exercise of the Over-allotment Option. The total net proceeds amounted to approximately HK$1,454.9 million (equivalent to approximately RMB1,335.4 million[14]). The aforementioned net proceeds amounts were arrived at after deducting the underwriting commissions and other estimated expenses payable by the Company in connection with the Global Offering and the full exercise of the Over-allotment Option.

The Company has utilized, and expects to utilize, the net proceeds from the Global Offering and the full exercise of the Over-allotment Option in accordance with the intended uses previously disclosed in the Prospectus (following pro rata adjustment based on the actual net proceeds received). For further details, please refer to the section headed "Future Plans and Use of Proceeds" in the Prospectus.

As at the end of the Reporting Period, the Group has used the net proceeds as follows:

Intended use of net proceeds	**Allocation of net proceeds** RMB in million	**Percentage of total net proceeds**	**Net proceeds utilized as at the end of the Reporting Period** RMB in million	**Net proceeds unutilized as at the end of the Reporting Period** RMB in million	**Expected time of full utilization**
(1) Research, development and commercialization of our Core Products, namely, SKB264 and A166	600.9	45%	297.9	303.0	Year 2025
(2) Research, development and commercialization of our other key products, including A140, A167, A400 and A223	400.6	30%	220.1	180.5	Year 2024

Notes :

(12) Based on the exchange rate of HK$1:RMB0.91803 published by the State Administration of Foreign Exchange of the PRC on July 11, 2023 for illustration purpose.

(13) Based on the exchange rate of HK$1:RMB0.91663 published by the State Administration of Foreign Exchange of the PRC on August 8, 2023 for illustration purpose.

(14) Based on the RMB equivalent of aggregate net proceeds from the Global Offering and the full exercise of the Over-allotment Option.

Intended use of net proceeds	Allocation of net proceeds RMB in million	Percentage of total net proceeds	Net proceeds utilized as at the end of the Reporting Period RMB in million	Net proceeds unutilized as at the end of the Reporting Period RMB in million	Expected time of full utilization
(3) Continued development of our technology platforms, advance our other existing pipeline assets, and explore and develop new drug candidates	160.2	12%	70.5	89.7	Year 2024
(4) Funding the expansion of our manufacturing capabilities and quality control system to support the anticipated commercialization of our late-stage assets	106.8	8%	96.2	10.6	Year 2024
(5) Working capital and general corporate purposes	66.9	5%	29.8	37.1	Year 2024
Total	1,335.4[1]	100%	714.5	620.9	

Note :

(1) Based on the RMB equivalent of aggregate net proceeds from the Global Offering and the full exercise of the Over-allotment Option.

SUFFICIENCY OF PUBLIC FLOAT

The Stock Exchange has granted the Company a waiver from strict compliance with Rule 8.08(1) of the Listing Rules, such that the minimum percentage of the Shares from time to time held by the public shall be the higher of (a) 20.88% and (b) such percentage of Shares of the enlarged issued share capital of the Company held by the public upon any exercise of the Over-allotment Option. Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirmed that the Company has maintained the aforementioned minimum public float required by the Stock Exchange since the Listing Date and up to the Latest Practicable Date.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Disclosure on the particulars of purchase, sale or redemption by the Company or any of its subsidiaries of the listed securities of the Company is not applicable to the Company for the period before the Listing Date, as the Company was not listed on the Stock Exchange. Since the Listing Date and up to December 31, 2023, none of the Company or any of its subsidiaries has made any purchase, sale or redemption of the listed securities of the Company.

CHANGE IN CONSTITUTIONAL DOCUMENTS

On August 31, 2023 and January 15, 2024, certain amendments to the Articles of Association of the Company came into effect to reflect the registered capital and share capital structure of the Company upon full exercise of the Over-allotment Option and the full circulation of certain Domestic Shares and Unlisted Foreign Shares, respectively. For further details, please refer to the Company's announcements dated August 31, 2023, December 20, 2023 and circular dated December 22, 2023.

Save as disclosed above, there was no significant change to the constitutional documents of the Company for the year ended December 31, 2023.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company or the laws of the PRC which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

TAX RELIEF AND EXEMPTION

The holders of H Shares of the Company shall pay relevant tax and/or enjoy tax relief and exemption in accordance with the following provisions:

According to the Individual Income Tax Law of the People's Republic of China《中華人民共和國個人所得税法》and its implementation rules, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For an individual who has no domicile in the PRC and is not resident in the territory of the PRC or who has no domicile in the PRC and has been resident in the territory of the PRC for less than 183 days cumulatively within a tax year, his/her receipt of dividends from a PRC company is normally subject to a PRC withholding tax of 20% unless specifically exempted or reduced by an applicable tax treaty and other tax laws and regulations.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Holders of H Shares who are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897)《國家税務總局關於中國居民企業向境外 H 股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》(國税函[2008]897 號)), a PRC resident enterprise, when distributing dividends for 2008 and for the years afterwards to holders of H Shares who are overseas non-resident enterprises, shall withhold the enterprise income tax at a flat rate of 10%. A non-PRC resident enterprise which is entitled to a preferential tax rate under an applicable tax treaty or arrangement may, directly or through its agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

Pursuant to the Notice of Adjustment of Stock List of Southbound Trading Link of the Shanghai Hong Kong Stock Connect《關於滬港通下港股通標的調整的通知》made by the Shanghai Stock Exchange on March 1, 2024, the Company was included in the list of eligible shares of the Southbound Trading Link of the Shanghai-Hong Kong Stock Connect with effect from March 4, 2024. Pursuant to the Notice on relevant Tax Treatment for the Pilot Inter-connected Mechanism for Trading on the Shanghai and Hong Kong Stock Markets (Cai Shui [2014] No. 81)《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014] 81 號)) and Notice on relevant Tax Treatment for the Pilot Inter-connected Mechanism for Trading on the Shenzhen and Hong Kong Stock Markets (Cai Shui [2016] No. 127)《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016] 127號)), for dividends received by domestic individual investors from investing in H shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the company of such H shares shall withhold and pay individual income tax at the rate of 20%. For dividends received by domestic securities investment funds from investing in H shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

RELATIONSHIPS WITH THE GROUP'S CUSTOMERS AND SUPPLIERS

The Group values long standing relationships with its suppliers and customers. The Group aims at delivering high quality products to its customers and developing mutual trust and enhancing communication and commitment between the Group and its suppliers to maintain sustainable growth.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, revenue attributable to the Group's five largest customers and the largest customer accounted for 100.00% and 99.20%, respectively, of the Group's total revenue for the Reporting Period.

During the Reporting Period, purchases attributable to the Group's five largest suppliers and the largest supplier accounted for 25.63% and 9.98%, respectively, of the Group's total purchases for the Reporting Period.

As at December 31, 2023, Kelun Pharmaceutical (a Controlling Shareholder) is one of the Group's five largest customers and one of the Group's five largest suppliers. Mr. LIU Gexin (Chairman of the Board and Non-executive Director, and a Controlling Shareholder) holds a 25.29% interest in Kelun Pharmaceutical and is deemed as the actual controller of Kelun Pharmaceutical.

Save as disclosed above, none of the Directors or any of their close associates (as defined in the Listing Rules) or any Shareholders (whom, to the best knowledge and belief of the Directors, own more than 5% of the Company's total issued share capital) had any interest in the Group's five largest suppliers and customers for the Reporting Period.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have a significant impact on it. The Group would seek professional legal advice from its legal advisers to ensure that transactions and business to be performed by the Group are in compliance with the applicable laws and regulations. During the Reporting Period, the Group had complied with the laws, regulations and regulatory requirements of the places where the Group operates in all material respects, including the requirements under the Companies Ordinance, the Listing Rules, the SFO and the CG Code for, among other things, the disclosure of information and corporate governance. During the Reporting Period, none of the Group and the Directors, Supervisors and senior management of the Company were subject to any investigation initiated or administrative penalties imposed by the CSRC, banned from entering the market, identified as inappropriate candidates, publicly condemned by stock exchanges, subject to mandatory measures, transferred to judicial organs or held criminally responsible, and none were involved in any other litigation, arbitration or administrative proceedings which would have a material adverse impact on our business, financial condition or results of operations. Please refer to the section headed "Regulatory Overview" in the Prospectus for more details regarding the relevant laws and regulations which have a significant impact on our business operation.

RELATIONSHIPS WITH THE GROUP'S EMPLOYEES

The Group believes that employees are important and valuable assets. The Group will provide trainings for employees to enhance their knowledge in corporate values and culture and to implement them thoroughly. Meanwhile, the Group encourages staff on continued studies by giving subsidy to recognized development courses. The Group also aims to provide competitive and attractive remuneration packages to retain its employees. The management reviews annually the remuneration package offered to the employees of the Group. Meanwhile, for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group's operations, the Company has adopted the Pre-IPO Employee Incentive Scheme. Details of the scheme is set out in the sub-section headed "Pre-IPO Employee Incentive Scheme" in this report.

CHARITABLE DONATIONS

During the Gansu earthquake in 2023, we participated in the public welfare activities of China Post, donating 230 parcels to the disaster area.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of this Annual Report.

EQUITY-LINKED AGREEMENT

Save as disclosed in this report, no equity-linked agreement was entered into by the Company at any time during or subsisted at the end of the year ended December 31, 2023.

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Dr. LI Yuedong, Dr. TU Wenwei and Dr. JIN Jinping. The chairman of the Audit Committee is Dr. LI Yuedong who holds the appropriate qualification as required under Rules 3.10(2) and 3.21 of the Listing Rules. The Audit Committee has reviewed the audited Consolidated Financial Statements for the year ended December 31, 2023 with the management and the auditor of the Company. The Audit Committee considered that the Consolidated Financial Statements are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management of the Company.

INDEPENDENT AUDITOR

The Consolidated Financial Statements for the Reporting Period have been audited by KPMG, who will retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. Having been approved by the Board upon the Audit Committee's recommendation, a resolution for the re-appointment of KPMG as the independent external auditor for the ensuing year will be put to the forthcoming annual general meeting for Shareholder's approval.

Since the Listing Date, the auditor of the Company has not changed. At the extraordinary general meeting of the Company held on January 15, 2024, KPMG was appointed as the auditor of the Company for the year 2023.

By order of the Board
Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd.
LIU Gexin
Chairman of the Board and Non-executive Director

Hong Kong, March 25, 2024

REPORT OF THE SUPERVISORS

With the joint efforts of all Supervisors of the Company and in accordance with the laws and regulations such as the PRC Company Law, and the provisions of the Articles of Association and the Rules of Procedure for the Supervisory Committee, in the spirit of being responsible to all Shareholders, the Supervisory Committee conscientiously performed the duties and powers conferred upon it by the relevant laws and regulations, actively and effectively carried out work, supervised the operation of the Company in accordance with the law and the performance of duties by the Directors and senior management of the Company, and safeguarded the legitimate rights and interests of the Company as well as its Shareholders.

The work of the Supervisory Committee in 2023 and the work plan for 2024 are hereby reported as follows:

I. WORK OF THE SUPERVISORY COMMITTEE IN 2023

(I) In 2023, the Supervisory Committee convened and held three meetings of the Supervisory Committee in accordance with the law. The notice, convening and voting procedures for the meetings were in compliance with the requirements of PRC Company Law and other laws and regulations as well as the Articles of Association and the Rules of Procedure for the Supervisory Committee. The Supervisory Committee considered and approved the following matters:

Session	Time of convening	Matter	Opinion
The third meeting of the third session of the Supervisory Committee	January 30, 2023	To formulate the Rules of Procedure for the Supervisory Committee applicable after the issuance and listing (H Shares)	Considered and approved
The fourth meeting of the third session of the Supervisory Committee	August 28, 2023	To consider the Company's unaudited consolidated financial statements, interim results announcement and draft interim report as of June 30, 2023	Considered and approved
The fifth meeting of the third session of the Supervisory Committee	December 7, 2023	To engage an auditor for Year 2023	Considered and approved

(II) The work of the Supervisory Committee mainly included but was not limited to:

1. attending general meetings to understand the operation of the general meetings;

2. attending the meetings of the Board of the Company on a non-voting basis as needed to understand the operation of the Board;

3. reviewing the financial report of the Company;

4. reviewing the periodic reports of the Company prepared by the Board of the Company;

5. supervising the conduct of Directors and senior management of the Company in performing their duties to the Company.

II. OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2023

(I) Operation Compliance

The members of the Board and the senior management of the Company operated in strict compliance with the relevant provisions of the PRC Company Law and the Articles of Association, diligently and responsibly performed their duties by following a scientific and reasonable decision-making process, and earnestly implemented each resolution of the general meetings, and no illegal acts or actions against the interests of the Company were found.

(II) Financial Position of the Company

The Supervisory Committee reviewed and agreed with the audited consolidated financial statements of the Company for the year ended December 31, 2023, and believed that the financial statements of the Company have given a fair and true view of the financial position and the operating results of the Company and its subsidiaries and are free of false representations, misleading statements and material omissions.

(III) Internal Control

Based on the relevant regulations of the PRC Company Law and the Articles of Association as well as the actual situation of the Company, the Company has established a comprehensive internal control system, which covers the main aspects of the Company's operation and ensures full and effective implementation and supervision of the Company's internal control.

(IV) Integrity and Self-discipline

The Directors and senior management of the Company consciously and strictly regulated themselves to abide by the laws and regulations with honesty and self-discipline, and no illegal acts due to personal interests were found.

(V) Connected Transactions of the Company

During the Reporting Period, save as disclosed in the section headed "Connected Transactions" of the Report of the Directors and in the Prospectus, the Company had no connected transactions.

(VI) External Guarantees of the Company

During the Reporting Period, the Company did not provide any external guarantees.

III. WORK PLAN FOR 2024

The Supervisory Committee will further regulate the work of the Supervisory Committee in accordance with the PRC Company Law, the Articles of Association as well as other applicable laws and regulations, reinforce its supervisory duties and safeguard the interests of the Company and its Shareholders by:

(I) attending general meetings of the Company and paying close attention to the operation of the general meetings as well as the Company's business decisions to ensure normal operation of the Company;

(II) attending the meetings of the Board of the Company on a non-voting basis as needed, actively participating in various work meetings organized and convened by the Company, and keeping abreast of the operation of the Board and the operation and development of the Company to ensure the standardized operation of the Company;

(III) further reinforcing the supervision and inspection of the financial position of the Company;

(IV) supervising the compliance and due diligence of the Directors and senior management of the Company;

(V) further strengthening the supervision over the Company's operation, determining the high-risk area of internal control according to the Company's operation, continuously improving risk control, optimizing relevant business processes, improving management efficiency, and promoting the Company's business development.

By order of the Supervisory Committee
Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd.
LAI Degui
Chairman of the Supervisory Committee

Hong Kong, March 25, 2024

CORPORATE GOVERNANCE REPORT

The Board is pleased to report to the Shareholders on the corporate governance of the Company from the Listing Date to December 31, 2023.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

Since the Shares of the Company were listed on the Main Board of the Stock Exchange on July 11, 2023, the Company has adopted the principles and code provisions of the CG Code contained in Appendix C1 of the Listing Rules as the basis of the Company's corporate governance practices since the Listing Date.

In the opinion of the Directors, throughout the period from the Listing Date to December 31, 2023, the Company has complied with the applicable code provisions as set out in the CG Code.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Board will continue to review and monitor its code of corporate governance practices of the Company with an aim to maintaining a high standard of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix C3 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors, the Supervisors and the Group's employees who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

The Model Code was only applicable to the Company for the Reporting Period from the Listing Date to December 31, 2023. Upon specific enquiry, all Directors and Supervisors confirmed that they have complied with the Model Code since the Listing Date and up to December 31, 2023. In addition, the Company is not aware of any non-compliance with the Model Code by the senior management of the Group since the Listing Date and up to December 31, 2023.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsible for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board's responsibilities. The Board includes a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Board Composition

The Board currently comprises eleven Directors, consisting of two executive Directors, five non-executive Directors, and four independent non-executive Directors.

Executive Directors

Dr. GE Junyou *(General Manager)*
Dr. WANG Jingyi

Non-executive Directors

Mr. LIU Gexin *(Chairman of the Board)*
Mr. LIU Sichuan
Mr. FENG Hao
Mr. ZENG Xuebo
Mr. LI Dongfang

Independent Non-executive Directors

Dr. ZHENG Qiang
Dr. TU Wenwei
Dr. JIN Jinping
Dr. LI Yuedong

The biographical information of the Directors is set out in the section headed "Directors, Supervisors and Senior Management" on pages 45 to 56 of this Annual Report. The relationships between the Directors are disclosed in the respective Director's biography under the section "Directors, Supervisors and Senior Management" of this Annual Report. Mr. Liu Gexin is the father of Mr. Liu Sichuan. Save as disclosed, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between the Board members and in particular, between the Chairman and the General Manager.

Directors' Attendance Records

As the Company was only listed on the Stock Exchange on July 11, 2023, only one regular Board meeting was held during the period from the Listing Date to December 31, 2023. The Company expects to convene at least four regular Board meetings in each financial year at approximately quarterly intervals in accordance with code provision C.5.1 of the CG Code. No general meeting was convened during the period from the Listing Date to December 31, 2023.

The attendance record of each Director at the regular Board meetings and the regular Board Committee meetings of the Company held during the period from the Listing Date to December 31, 2023 are set out in the table below:

	Attendance/Number of Meetings			
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Dr. GE Junyou	1/1	N/A	N/A	N/A
Dr. WANG Jingyi	0/1	N/A	N/A	N/A
Non-executive Directors				
Mr. LIU Gexin	1/1	N/A	N/A	0/0
Mr. LIU Sichuan	1/1	N/A	1/1	N/A
Mr. FENG Hao	1/1	N/A	N/A	N/A
Mr. ZENG Xuebo	1/1	N/A	N/A	N/A
Mr. LI Dongfang	1/1	N/A	N/A	N/A
Independent non-executive Directors				
Dr. ZHENG Qiang	1/1	N/A	1/1	0/0
Dr. TU Wenwei	1/1	1/1	N/A	0/0
Dr. JIN Jinping	1/1	1/1	1/1	N/A
Dr. LI Yuedong	1/1	1/1	N/A	N/A

Note: During the period from the Listing Date to December 31, 2023:–

- The Board held one regular meeting and circulated written resolutions twice.
- The Audit Committee held one regular meeting and circulated written resolutions once.
- The Remuneration Committee held one regular meeting and did not circulate written resolutions.
- The Nomination Committee circulated written resolutions once.

The attendance record of Dr. WANG Jingyi at the regular Board meeting by his alternate is set out below:

Name of alternate	Attendance/Number of Board Meeting
Dr. GE Junyou	1/1

The Company was only listed on July 11, 2023. From the Listing Date to December 31, 2023, the chairman of the Board did not hold any meeting with the independent non-executive Directors without the presence of other Directors. The Company will fully comply with code provision C.2.7 that the chairman of the Board should at least annually hold meetings with the independent non-executive Directors without the presence of other Directors.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances at the Company's expense for discharging their duties to the Company.

The Directors should disclose to the Company details of other offices held by them in public companies or organizations and other significant commitments. The Board should regularly review the contribution required from each Director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time performing such responsibilities.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Chairman and General Manager

The positions of Chairman and General Manager (same role as the position of chief executive pursuant to the CG Code) are held by Mr. LIU Gexin and Dr. GE Junyou respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The General Manager focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

During the period from the Listing Date to December 31, 2023, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

Board Independence Evaluation

The Company has established mechanisms in accordance with the code provision B.1.4 of the CG Code to ensure independent views and input are available to the Board, channels are in place through formal and informal means whereby independent non-executive Directors can express their independent views in an open and candid manner and exercise judgement to better safeguard Shareholders' interests as well as in a confidential manner, should circumstances require; these include dedicated meeting sessions with the Chairman and interaction with management and other Board members including the Chairman outside the boardroom. The Board includes a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which enables it effectively exercise independent judgment. External independent professional advice is available as and when required by individual Directors. The mechanism to ensure independent views and input are available to the Board is reviewed annually.

For the period from Listing Date to December 31, 2023, the Board reviewed the implementation and effectiveness of the mechanism and the results were satisfactory.

Appointment and Re-election of Directors

Under the Articles of Association, the Directors shall be elected or replaced by a general meeting. Directors are appointed for a term of three years, subject to re-election upon expiry of the term.

The Company has entered into a service agreement or an appointment letter with each of the Directors (including non-executive Directors and independent non-executive Directors). Such service contracts and appointment letters are for a term commencing from the date of appointment to the expiry of the term of office of the current session of the Board.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

All Directors are encouraged to attend relevant training courses at the Company's expenses.

For the Reporting Period, prior to the Listing Date and up to December 31, 2023, the Company organized training sessions for all Directors. The training sessions covered a wide range of relevant topics including Directors' duties and responsibilities, corporate governance, continuing obligations and regulatory updates.

All Directors have participated in appropriate training before the Listing so as to deepen their understanding of the Listing Rules and other relevant laws and regulations.

The training records of the Directors for the year ended December 31, 2023 are summarized as follows:

Directors	Type of Training *Note*
Executive Directors	
Dr. GE Junyou	A
Dr. WANG Jingyi	A
Non-executive Directors	
Mr. LIU Gexin	A
Mr. LIU Sichuan	A
Mr. FENG Hao	A
Mr. ZENG Xuebo	A
Mr. LI Dongfang	A
Independent Non-executive Directors	
Dr. ZHENG Qiang	A
Dr. TU Wenwei	A
Dr. JIN Jinping	A
Dr. LI Yuedong	A

Note:

Type of Training

A: Attending training sessions, including but not limited to briefings, seminars, conferences and workshops

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of Audit Committee, Remuneration Committee and Nomination Committee are published on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Audit Committee consists of three members, all of whom are independent non-executive Directors, namely Dr. LI Yuedong, Dr. TU Wenwei and Dr. JIN Jinping. Dr. LI Yuedong is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information of the Company and their reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee has reviewed, in respect of the year ended December 31, 2023, the interim financial results and report for the period ended June 30, 2023, and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor and engagement of non-audit services and relevant scope of works and arrangements for employees to raise concerns about possible improprieties.

From the Listing Date to December 31, 2023, the Audit Committee also met the external auditor of the Company once without the presence of the executive Directors.

Remuneration Committee

The Remuneration Committee consists of three members, including one non-executive Director, namely Mr. LIU Sichuan, and two independent non-executive Directors, namely Dr. ZHENG Qiang, and Dr. JIN Jinping. Dr. ZHENG Qiang is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration policy and structure for all Directors and senior management, making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, and establishing transparent procedures for developing such remuneration policy and structure.

From the Listing Date to December 31, 2023, the Remuneration Committee met once to consider the relevant matters regarding, assessing the performance of executive Directors, approving the terms of executive Directors' service contracts, and reviewing and making recommendations to the Board on, the remuneration policy and the remuneration packages of the executive Directors and senior management.

The remuneration (excluding share-based payments) of the senior management (excluding Directors), whose biographical details are included in the section headed "Directors, Supervisors and Senior Management" of this Annual Report, during the year falls within the following bands:

Annual remuneration (RMB)	Number of Individuals
2,000,000 to 3,000,000	1
3,000,001 to 4,000,000	2
4,000,001 to 5,000,000	2
5,000,001 to 7,000,000	1

The Company's remuneration policy is to ensure that the remuneration offered to employees, including Directors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of executive Directors are also determined with reference to the Company's performance and profitability, the prevailing market conditions and the performance or contribution of each executive Director. The remuneration for the executive Directors comprises basic salary, pensions and discretionary bonus. The remuneration policy for independent non-executive Directors is to ensure that independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs, including their participation in Board committees. The remuneration for the independent non-executive Directors mainly comprises Director's fee which is determined with reference to their duties and responsibilities by the Board. Individual Directors and senior management have not been involved in deciding their own remuneration.

Nomination Committee

The Nomination Committee consists of three members, including one non-executive Director, namely Mr. LIU Gexin, and two independent non-executive Directors, namely Dr. ZHENG Qiang and Dr. TU Wenwei. Mr. LIU Gexin is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, reviewing the Board Diversity Policy and the Director Nomination Policy and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would extensively identify candidates for Directors within the Company and its controlling (investee) enterprises as well as in the labor market. It will gather information about the occupation, education background, job title, detailed information in relation to the work experience and all the part-time positions of the preliminary proposed candidates, and formulate written materials thereon. Then it will convene a committee meeting to conduct qualification review on the candidates in accordance with the requirements for Directors, and then submit to the Board its proposals and relevant information on the candidates for the new Directors.

The structure, size and composition of the Board, independence of the independent non-executive Directors and the balance of diversity perspectives of the Board have been reviewed by the Nomination Committee and the Nomination Committee considered that an appropriate balance of diversity perspectives of the Board was maintained from the Listing Date to December 31, 2023. For the year ended December 31, 2023, the Company held the Nomination Committee meeting on March 20, 2023 and will hold such meeting annually and regularly.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent.

Pursuant to the Board Diversity Policy, the Nomination Committee reviews annually the structure, size and composition of the Board and where appropriate, makes recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to talent, skills, gender, age, cultural and educational background, ethnicity, professional experience, independence, knowledge and length of service. Meanwhile, the Company will consider the above factors based on its business model and its specific needs from time to time. All Board appointments will ultimately be based on meritocracy and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. The Company aims to maintain an appropriate balance of diversity of perspectives of the Board that are relevant to the Company's business growth.

The Nomination Committee has conducted an annual review of the Board Diversity Policy to ensure its effectiveness. The review results are satisfactory. The Nomination Committee and the Board consider that the current composition of the Board is sufficiently diverse and has met the objectives set out in the Board Diversity Policy and provided the Company with a good balance of skills, experience and diversity of perspectives appropriate to the requirements of its business, and accordingly have not set any measurable objectives.

Gender Diversity

The Company values gender diversity across all levels of the Group. Currently, the Board has two female Directors and nine male Directors, and the Company's general manager, representing its senior management, is male. The Board targeted to achieve and has achieved to have at least one female Director, and considers that the above current gender diversity in the Board is satisfactory. The Board will continue to embrace gender diversity when making future board appointments but no specific targets or timelines to further enhance gender diversity have been set as the Board is of the view that all aspects of diversity should be considered as a whole in the selection of candidates for directorship. The same approach to gender diversity at the Board level also applies to the Group's workforce, including its senior management. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this Annual Report:

	Female (Percentage (Number of staff))	Male (Percentage (Number of staff))
Board	18.2% (2)	81.8% (9)
Senior Management	0.0% (0)	100.0% (7)
Other employees	60.5% (850)	39.5% (556)
Overall workforce	59.8% (852)	40.2% (572)

We will implement policies to ensure gender diversity when recruiting staff to develop a pipeline of female senior management and potential successors to the Board. We will strive to enhance our female representation and achieve appropriate balance of gender diversity with reference to the stakeholders' expectation and international and local recommended best practices. Furthermore, we continue to embrace gender diversity aimed at identifying and training our female staff who display leadership and potential, with the goal of promoting them to the senior management or the Board. We do not consider it appropriate to set any specific gender target for its workforce as the Board is of the view that all aspects of diversity should be considered as a whole in the selection of candidates. As an equal opportunity employer, our Company also takes into account other relevant factors in its hiring decisions. We consider that the current gender ratio of the workforce of the Group, including the Board, is appropriate for its current business model and operational needs.

Details on the gender ratio of the Group together with relevant data can be found in the Environmental, Social and Governance Report on pages 113 to 162 of this Annual Report.

Director Nomination

Pursuant to the Articles of Association and the terms of reference of the Nomination Committee, the election and change of Directors shall be considered by the Shareholders at the general meetings.

Shareholders individually or jointly holding three percent or more of the Company's Shares with voting rights may directly nominate candidates for election as Directors by way of a proposed resolution in writing, but the number of persons nominated shall comply with the Articles of Association and shall not be greater than the number of Directors proposed to be elected. The proposed resolution shall be delivered to the Company at least 10 business days before the date of the relevant general meeting for consideration at the general meeting.

The Nomination Committee recommends candidates for directorship, taking into consideration the Board Diversity Policy and the candidates' specific qualifications (including whether the candidates can bring views, perspectives, skills, and experience to the Board, and whether the candidates can contribute to the diversity of the Board members). The Board will then shortlist the candidates for submission to the general meeting for consideration.

From the Listing Date to December 31, 2023, there was no change in the composition of the Board.

The Nomination Committee will review the director nomination policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

From the Listing Date to December 31, 2023, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, compliance with the Model Code and the "Code for Securities Transactions by Relevant Employees", and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Board has also established a Risk Prevention and Control Leadership Group (風險防控領導小組), consisting of the General Manager and division heads, together with the Audit Committee, which assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology.

The Company's risk management and internal control systems have been developed with the following principles, features and processes:

Risk Management

We recognize that risk management is critical to the success of our business operation. Key operational risks faced by us include changes in the general market conditions and the regulatory environment of the Chinese and global biopharmaceuticals markets, our ability to develop, manufacture and commercialize our drug candidates, and our ability to compete with other biopharmaceutical companies. We also face various market risks. In particular, we are exposed to credit, liquidity, interest rate and currency risks that arise in the normal course of our business.

We have adopted a comprehensive set of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with our strategic objectives on an on-going basis. Risks identified by management will be analyzed on the basis of likelihood and impact, and will be properly followed up and mitigated and rectified by our Group and reported to the Board. The Board supervises the implementation and reviews the effectiveness of our risk management policies at least once a year.

During the period from the Listing Date to December 31, 2023, to monitor the ongoing implementation of risk management policies and corporate governance measures, we have adopted, among other things, the following risk management measures:

- The Board has the responsibility to oversee and manage the overall risks associated with our business operations, including (i) reviewing and approving our risk management policy to ensure that it is consistent with our corporate objectives; (ii) reviewing and approving annual working plan and annual report of our corporate risk management; (iii) monitoring the most significant risks associated with our business operation and our management's handling of such risks; (iv) reviewing our corporate risk in the light of our corporate risk tolerance; and (v) monitoring and ensuring the appropriate application of our risk management framework across our Group.

- Our audit department, led by our Risk Prevention and Control Leadership Group, is responsible for (i) formulating our risk management policy and reviewing major risk management issues of our Company; (ii) formulating annual working plan and annual report of risk management; (iii) providing guidance on our risk management approach to the relevant departments in our Company and supervising the implementation of our risk management policy by the relevant departments; (iv) reviewing the relevant departments' reporting on key risks and providing feedback; and (v) education and training in relation to risk management.

- The relevant departments in our Company, including but not limited to the finance department, the legal department and the human resources department, are responsible for implementing our risk management policy and carrying out our day-to-day risk management practice. In order to formalize risk management across our Group and set a common level of transparency and risk management performance, the relevant departments have and will continue to (i) gather information about the risks relating to their operation or function; (ii) conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives; (iii) continuously monitor the key risks relating to their operation or function; (iv) implement appropriate risk responses where necessary; (v) develop and maintain an appropriate mechanism to facilitate the application of our risk management framework; and (vi) timely report to our audit department and Risk Prevention and Control Leadership Group upon the discovery of material risks.

We consider that our Directors and members of our senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control.

Internal Control

Our Board is responsible for establishing our internal control system and reviewing its effectiveness annually. During the period from the Listing Date to December 31, 2023, we reviewed and enhanced our internal control system. Below is a summary of the internal control policies, measures and procedures we have implemented:–

- We have adopted various measures and procedures regarding each aspect of our business operation, such as related party transaction, risk management, protection of intellectual property, environmental protection and occupational health and safety. We provide periodic training about these measures and procedures to our employees as part of our employee training program. Our internal audit department conducts audit field work to monitor the implementation of our internal control policies, reports the weakness identified to our management and Audit Committee and follows up on the rectification actions.

- Our Directors (who are responsible for monitoring the corporate governance of our Group) with help from our legal advisers, will also periodically review our compliance status with all relevant laws and regulations.

- We have established the Audit Committee which (i) makes recommendations to our Directors on the appointment and removal of external auditors and (ii) reviews the financial statements and renders advice in respect of financial reporting as well as oversees internal control procedures of our Group.

- We have engaged First Shanghai Capital Limited as our compliance adviser to provide advice to our Directors and management team until the end of the first full fiscal year commencing after the Listing Date regarding matters relating to the Listing Rules. Our compliance adviser is expected to ensure our use of funding complies with the intended use of proceeds previously disclosed in the Prospectus, as well as to provide support and advice regarding requirements of relevant regulatory authorities in a timely fashion.

- We have engaged Zhong Lun Law Firm LLP as our PRC legal adviser to advise us on and keep us abreast with PRC laws and regulations. We will continue to arrange various trainings to be provided by external legal advisers from time to time when necessary and/or any appropriate accredited institution to update our Directors, senior management, and relevant employees on the latest PRC laws and regulations.

- We intend to maintain strict anti-corruption policies among our sales personnel and distributors in our future sales and marketing activities. We will also strive to ensure that our sales and marketing personnel comply with applicable promotion and advertising requirements in the future.

We will conduct periodic review of relevant laws and regulations and amend our internal policies to ensure compliance with the latest applicable laws and regulations.

All divisions/departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each division/department.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended December 31, 2023.

The internal audit department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, conducted an annual review of the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended December 31, 2023, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experience and relevant resources.

The Company has in place the Anti-Corruption Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. Employees can also make anonymous reports to the internal audit department, legal department or the human resources department. All reported cases will be centralized and submitted to the Audit Committee, which is responsible for investigating the reported incidents and taking appropriate measures within their terms of reference. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organizes anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

During the year ended December 31, 2023, there were two anti-corruption/anti-fraud trainings provided to all employees. Furthermore, all new staff are required to complete e-learning for anti-corruption and anti-fraud. There were no non-compliance cases in relation to bribery and corruption.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2023.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 163 to 167 of this Annual Report.

AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor of the Company in respect of audit services and non-audit services for the year ended December 31, 2023 is set out below:

Service Category	Fees Paid/Payable RMB
Audit Services	2,240,000
IPO-related Services	3,160,000
Non-audit Services	
– Tax Services	900,000
Total	6,300,000

COMPANY SECRETARY

Mr. ZHOU Zejian and Ms. FUNG Wai Sum are the Company's joint company secretaries, of which Mr. Zhou is a full time employee of the Company and Ms. Fung is the external company secretary. Mr. Zhou is also our chief financial officer and has day-to-day knowledge of the Company's affairs.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Mr. Zhou has been designated as the primary corporate contact person at the Company who would work and communicate with Ms. Fung on the Company's corporate governance and secretarial and administrative matters.

For the year ended December 31, 2023, both Mr. Zhou and Ms. Fung have each taken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting

Shareholders who individually or jointly hold more than ten percent of the Shares of the Company shall have the right to propose to the Board to convene an extraordinary general meeting, and shall make such proposal to the Board in writing. The Board shall, in accordance with the provisions of laws, administrative regulations, departmental rules, the securities regulatory rules of the place where the Company's Shares are listed and the Articles of Association, give written feedback on approval or disapproval of the convening of an extraordinary general meeting within ten days after receiving the written request.

When the Board agrees to convene an extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. Changes in the original proposal in the notice shall be subject to the approval of relevant Shareholders. Where the laws, administrative regulations, departmental rules, securities regulatory rules of the places where the Company's Shares are listed have any other provisions, such provisions shall prevail.

If the Board does not agree to hold the extraordinary general meeting or fails to give a reply within ten days after receipt of the request, Shareholders severally or jointly holding more than ten percent of the Shares of the Company shall be entitled to propose and request in writing to the Supervisory Committee to convene an extraordinary general meeting.

If the Supervisory Committee agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after receipt of the said request. Changes in the original request in the notice shall be subject to the approval of relevant Shareholders.

If the Supervisory Committee fails to give the notice of the general meeting within the specified time limit, it shall be deemed to have failed to convene or preside over the meeting, in which case, Shareholders who individually or collectively hold more than ten percent of the Shares of the Company for more than ninety consecutive days may summon and preside over the meeting themselves.

If the Supervisory Committee or the Shareholders decide to summon a general meeting on their own initiative, they shall notify the Board in writing and make a filing with the securities regulatory authority of the Company's place of registration and the Stock Exchange in accordance with the applicable regulations.

Where the Shareholders summon a general meeting, the shareholding of the summoning Shareholder prior to the resolution of the general meeting shall not be less than ten percent of the Shares with voting rights of the Company.

The Supervisory Committee or the summoning Shareholder shall submit the relevant supporting documents to the securities regulatory authority of the Company's place of registration and the Stock Exchange when giving notice of the Shareholders' general meeting and when announcing the resolutions of the Shareholders' general meeting, and in accordance with the applicable regulations.

Putting Forward Proposals at General Meetings

Shareholders individually or jointly holding more than three percent of Shares in the Company are entitled to make proposals at the general meeting.

Shareholders individually or jointly holding at least three percent of the Shares of the Company may submit extempore proposals in writing to the convener ten days prior to the date of such meeting. The convener shall issue a supplementary notice of the general meeting and make a public announcement of the contents of such extempore proposal within two days after receipt of the proposal, and submit such extempore proposal to the general meeting for consideration. The contents of such an extempore proposal shall fall within the scope of the functions and powers of the general meeting, and contain a clear topic and a specific resolution.

In the notice of the general meetings, the Board will provide the Shareholders with the matters and proposals submitted for consideration at the meeting as well as the contact information of the contact person(s) for the meeting. During the general meetings, Shareholders can raise questions or suggestions as to the matters and proposals submitted for consideration, and the Directors attending the meeting are responsible for explaining, recording and, if necessary, providing further details.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders should direct their questions about their shareholdings, if any, to the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Shareholders may make enquiries to the Board or the Company in relation to corporate governance or other matters by mail to the Company's headquarters (No. 666 Xinhua Avenue, Chengdu Cross-Strait Science and Technology Industrial Development Park, Wenjiang District, Chengdu, Sichuan Province, the PRC) or the Company's place of business in Hong Kong (Attention: Joint Company Secretary of Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd., 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong).

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has adopted the Shareholders' Communication Policy, which aims to set out the approach of the Board to provide Shareholders of the Company and other stakeholders (including potential investors) information about the Company, in a fair and equal manner. In accordance with the Shareholders' Communication Policy, the Company endeavors to maintain an ongoing communication with Shareholders and in particular, through annual general meetings and other general meetings. At the forthcoming annual general meeting, our Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries.

The Company discloses information and publishes corporate communication to the public on the Stock Exchange's website in a timely manner in accordance with the Listing Rules and the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and does not contain any material omission, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions. To promote effective communication, the Company maintains a website at https://kelun-biotech.com where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Shareholders' Communication Policy

The Company has in place a Shareholders' Communication Policy. The policy aims at promoting effective communication with Shareholders and other stakeholders, encouraging Shareholders to engage actively with the Company and enabling Shareholders to exercise their rights as Shareholders effectively. We annually review the implementation and effectiveness of the Shareholders' Communication Policy (with communication channels). Following our review for the period from the Listing Date to December 31, 2023, we have concluded that the above policy provides sufficient opportunity and channels for ongoing communication between the Company (including the Board and management) and our Shareholders.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(a) General Meetings

Shareholders are encouraged to participate in general meetings, and if they are unable to attend, they may appoint proxies to attend and vote on their behalf at meetings.

The Company will make appropriate arrangements for general meetings to encourage Shareholders' participation.

The Company will review the procedures for general meetings from time to time to ensure its compliance with the provisions of the Articles of Association, the Listing Rules and the applicable laws of the PRC and to follow good corporate governance practices.

Board members, appropriate management executives and external auditor of the Company and such other persons as the Directors consider appropriate shall attend general meetings to answer questions from Shareholders.

The relevant circular and meeting materials will be despatched to the Shareholders in advance in accordance with the relevant provisions of the Listing Rules.

(b) Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings, if any, to the Company's H Share Registrar in Hong Kong.

Shareholders and investors may at any time request for the Company's information to the extent such information is publicly available.

Shareholders may at any time direct enquiries (including any questions regarding the Shareholders' Communication Policy), request for the Company's information to the extent such information is publicly available, and provide comments and suggestions to the office of the Board. Such questions, requests and comments may be sent by mail to the Company's headquarters (No. 666 Xinhua Avenue, Chengdu Cross-Strait Science and Technology Industrial Development Park, Wenjiang District, Chengdu, Sichuan Province, PRC) or the Company's principal place of business in Hong Kong (Attention: Joint Company Secretary of Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd., 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong).

In order to facilitate timely and effective communication and exchange, Shareholders are encouraged to provide their contact details, in particular email addresses, to the Company's H Share Registrar in Hong Kong.

(c) Company's Website

A dedicated "Investor Relations" section is available on the Company's website. Information on the Company's website is updated on a regular basis.

Information published by the Company on the website of the Stock Exchange will also be posted on the Company's website immediately thereafter. Such information includes, but is not limited to, annual reports, interim reports, announcements, circulars, notices of general meetings and information required to be disclosed from time to time under the Listing Rules.

Press releases and publications published by the Company from time to time will also be available from the Company's website.

(d) Communication with the Capital Markets

The Company will launch various activities from time to time, such as briefing sessions, roadshows, media interviews and marketing activities for investors, to facilitate communication and exchange of views between the Company and Shareholders and investors.

The designated personnel of the Company shall comply with relevant rules and the disclosure policies of the Company regarding the disclosure obligations and provisions when contacting or communicating with investors, analysts, media or other relevant external parties.

Amendments to Constitutional Documents

To reflect the changes in the registered capital and the total number of issued Shares of the Company after the completion of the Global Offering and the fully exercise of the Over-allotment Option, pursuant to the authorization granted by Shareholders' resolutions of the Company dated February 15, 2023 and June 12, 2023, the Company has amended the Articles of Association in relation to the registered capital and the total number of issued Shares, with the amended Articles of Association being effective on August 31, 2023.

After the Reporting Period, to reflect the changes in the registered capital and the total number of issued Shares of the Company after completion of the full circulation of certain Domestic Shares and Unlisted Foreign Shares of the Company, at the extraordinary general meeting held on January 15, 2024, certain amendments to the Articles of Associations were duly passed. Please refer to the circular of the Company dated December 22, 2023 for the details of the amendments.

Save for the above disclosure, there has been no significant change to the Articles of Association up to the date of this Annual Report.

The Articles of Association have been published both on the websites of the Stock Exchange and the Company.

Dividend Policy

The Company has adopted a dividend policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REGARDING THIS REPORT

Report Introduction

This report is the first environmental, social, and governance report (hereinafter referred to as "this report" or "ESG report") issued by Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd. (hereinafter referred to as "Kelun-Biotech", the "company", or "we"), aiming to elaborate on the institutional construction and performance of the company in environmental, social, and governance (hereinafter referred to as "ESG") aspects, and objectively disclose the management and achievements of the company in sustainable development, to respond to the expectations of stakeholders such as shareholders, employees, partners, and the public.

Scope and Boundary of Report

This report is an annual report, covering the work from January 1, 2023, to December 31, 2023 (hereinafter referred to as "reporting period"), and some related information may date back to the time before the reporting period. The policies and data provided in this report involve Kelun-Biotech and its subsidiaries, with the scope consistent with that of the annual report.

Rationale for Report Preparation

This report is prepared in accordance with Appendix C2 Environmental, Social and Governance Reporting Guide (hereinafter referred to as ESG Reporting Guide) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as "SEHK" or the "Stock Exchange of Hong Kong").

The preparation of this report follows the reporting principles of materiality, quantification, balance, and consistency. In this report, the company has disclosed the process of identifying significant ESG factors and, on this basis, measured and disclosed key performance indicators to present the work in ESG aspects fairly and objectively.

Appendix II of this report provides a detailed content index of the ESG Reporting Guide for the convenience of readers to look up for relevant information.

Data Source and Reliability Assurance

The information and data disclosed in this report are sourced from the company's statistical reports and official documents and have been reviewed by relevant departments. We commit that there are no false records or misleading statements in this report, and we are responsible for the truthfulness, accuracy, and completeness of the content. Unless specifically stated otherwise, the currency unit involved in the report is Chinese yuan, and in case of any inconsistency with the financial report, the financial report shall prevail.

Confirmation and Approval

After confirmation by the management, this report was approved by the Board of Directors on March 25, 2024.

Access to this Report and Relevant Feedback

Readers can obtain the electronic version of this report through the official website of the Stock Exchange of Hong Kong at www.hkexnews.hk or the company's official website at https://kelun-biotech.com/. In case of any discrepancy between the Chinese and English versions of this report, the Chinese version shall prevail. If you have any comments or suggestions on the company's environmental, social, and governance disclosures and performance, please contact us in the following ways.

E-mail: klbio_ir@kelun.com

Address: No. 666, Section 2, Xinhua Avenue, Wenjiang District, Chengdu

MESSAGE FROM THE MANAGEMENT

Kelun-Biotech is a biopharmaceutical company that focuses on innovative drug development, manufacturing and commercialization. Since its establishment in 2016, it has always considered "innovation-driven" as the most important strategy of the enterprise, adhering to the corporate culture of "Dedicated to Human Health With A Caring Heart", and has been committed to addressing the medical needs of China and even the world.

Based on years of accumulation, Kelun-Biotech has established three core platforms focusing on ADC, biologics, and small-molecule technologies, respectively. Our products in development are represented by ADCs, covering two major areas of oncology and autoimmunity, forming a pipeline of more than 30 differentiated and clinically valuable assets. Kelun-Biotech prioritizes quality and has established a mature R&D, production, and quality control system to ensure product quality. We have built a highly competitive commercial team, fully initiated the construction of commercial capabilities, to promote the launch of outstanding innovative drugs, bringing good news to patients in China and around the world.

While developing business, Kelun-Biotech gradually integrates the concept of sustainable development into its daily operations and management, comprehensively exploring the convergence of corporate and social values. The company continuously enhances its compliance and risk management capabilities, assumes corporate integrity responsibilities, and regards them as the cornerstone of the company's stable development. To improve ESG governance capabilities, we have established an ESG working group under the board of directors, forming a three-tier ESG governance structure of the board of directors-ESG working group-various functional departments, to comprehensively promote and implement ESG management.

We adhere to the core value of "focusing on the strivers", fully protect employee rights, place great emphasis on employee development, ensure employee safety, provide employees with a comprehensive welfare system, clear career development paths, and a healthy and safe working environment, striving to achieve co-creation and sharing with employees.

As a responsible enterprise citizen, we contribute to the realization of a healthy China by leveraging our attributes as a pharmaceutical company. The company upholds the mentality of open cooperation, actively participates in the industry to co-establish internationalization and in-depth cooperation to jointly promote the development of the global pharmaceutical industry and create more value for human health.

Looking forward to the future, the company will fulfill its commitments to all sectors of society with sustainable development. We look forward to continuously providing domestic and foreign patients with clinically significant and cost-effective innovative drugs, meeting unmet clinical needs worldwide, and contributing to the health development of human society.

Executive Director and General Manager of Kelun-Biotech
GE Junyou

CORPORATE AWARDS AND HONORS

Biotargeted Drug Engineering Research Center

National Development and Reform Commission

High-tech enterprises

Sichuan Provincial Department of Science and Technology, Sichuan Provincial Department of Finance, Sichuan Provincial Taxation Bureau, State Taxation Administration

2023 New Economy Demonstration Enterprise of Sichuan Province

Sichuan Provincial Department of Economy and Information Technology, Sichuan Provincial Department of Finance

2023 Global Unicorn

Hurun Research Institute

Biotechnological New Star of the Year with the Most Investment Value

BioCon China Expo 2023

Demonstration Cases of Science and Technology Innovation Service

2023 China International Fair for Trade in Services (CIFTIS)

Best IPO in Asia and Hong Kong, China, 2023

FinanceAsia

2023 Most Innovative Value Award

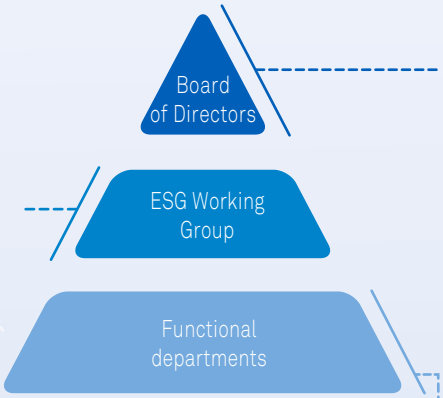
Cailian Press

OUR ESG METHOD

ESG Governance Structure

Kelun-Biotech has constructed a three-tier governance structure consisting of the Board of Directors, ESG Working Group, and ESG Executive Body. Among them, the Board of Directors serves as the highest responsibility and decision-making body for ESG management and information disclosure, guiding and supervising the company's ESG development; the ESG Working Group is led by the company's General Manager as the leader, leading the heads of relevant departments to carry out ESG management work. Through the establishment and continuous improvement of the ESG governance structure, the company comprehensively enhances the ESG performance ability and ensures the company's sustainable development.

ESG Governance Structure System of Kelun-Biotech



Management body

- Formulate strategy, objectives, annual work plan, and medium to long-term planning
- Improve the ESG management system and measures, guide information disclosure work
- Supervise the progress of target achievement and the development of key work
- Identify and assess ESG risks and opportunities, formulate response measures
- Identify important ESG issues and priorities, continuously communicate with stakeholders
- Report regularly to the Board of Directors

Highest responsibility and decision-making body

Review and approval of ESG related matters:

- Development directions, strategies and objectives
- Governance structure and important ESG systems
- Public disclosure of reports and significant information
- Response plan for risk and major negative events

Executive body

- Develop management indicators and implement annual work plan
- Establish and perfect ESG special management system
- Identify and assess ESG risks and opportunities, execute response and management measures
- Responding to ESG needs of stakeholders
- Assist ESG reporting and daily information disclosure, participate in company ESG promotion and training
- Report regularly to the ESG Working Group

Statement of Board of Directors

Kelun-Biotech places high importance on the deep integration of ESG management philosophy with the company's development strategy. The Board of Directors, combining its own development strategy and the expectations of various stakeholders, incorporates ESG factors into decision-making and daily operations, continuously enhancing the company's risk resistance and growth resilience.

As the highest responsibility and decision-making body for the company's ESG governance, the Board of Directors coordinates and oversees all ESG management work and bears the ultimate responsibility. During the reporting period, the Board of Directors led the identification and assessment of material issues, clarified the focus of ESG governance work, improved the ESG governance system, and actively took measures to address potential ESG risks and impacts, making ESG governance an important guarantee for the company's long-term stable development.

The Board of Directors gains effective understanding of the external ESG development trend and stakeholders' concern on the company's ESG performance by hearing regular reports from the ESG Working Group and conducting daily enquiries with it, and reviews and approves the annual ESG report, ESG development strategy of the company and ESG goals which have a material effect on the company's business. We maintain active communication with stakeholders, respond to ESG-related needs and expectations, and continuously improve the company's ESG governance level, thus ensuring the sustainability of the company's business.

Stakeholder Communication

Kelun-Biotech attaches great importance to the expectations and feedback of stakeholders. To promote two-way communication with stakeholders, we have established a variety of communication channels, including roadshows, visits, the company's official website, reports, public media accounts, and other online and offline forms, to maintain close communication with stakeholders.

Communication with Kelun-Biotech Stakeholders

Stakeholders	Important Topics of Primary Concern	Main Communication Channels
Shareholders and investors	Addressing climate change R&D innovation Product safety and quality of service Compliant operation Risk management	General meeting of shareholders Company website Information disclosure Non-deal roadshow On-site investigation
Customers	R&D innovation Product safety and quality of service Data and information security	Product identification and information disclosure Customer complaint channel Customer satisfaction survey
Employees	Employee rights and welfare Diversity and equality Occupational health and safety Employee training and development Business ethics	Comment Box Employee satisfaction survey Employee communication meeting Employee training activities Trade union activities

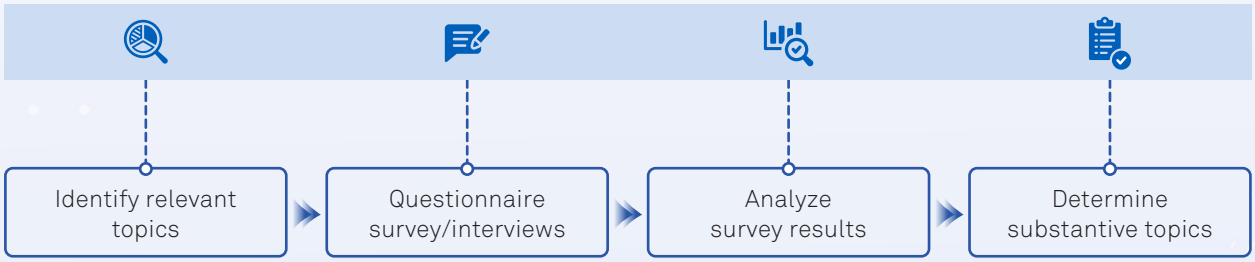
Stakeholders	Important Topics of Primary Concern	Main Communication Channels
Suppliers	R&D innovation Intellectual property protection Sustainable supply chain management Business ethics Risk management	Bidding activities Supplier review Supplier communication and training
Partners (non-supplier)	R&D innovation Intellectual property protection Product safety and quality of service Promoting industry development Compliant operation Risk management Data and information security	Strategic cooperation Daily communication Industry forum
Government and regulatory agencies	Addressing climate change Energy management Contaminant management Water resource management R&D innovation Product safety and quality of service Compliant operation	On-site visits Regular communication Information disclosure
Communities and the public	Contaminant management Product safety and quality of service Occupational health and safety Facilitating inclusive care Carrying out public charity activities Compliant operation	Community suggestions and suggestions Social public welfare activities News media WeChat public account

Kelun-Biotech managements on the way to meet the investors

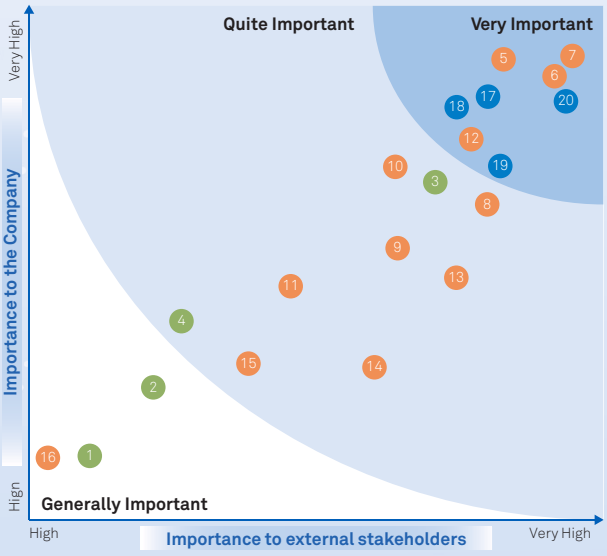
Identification and Determination of Important Topics

Kelun-Biotech, in conjunction with national macro policies, industry disclosure status, its own development strategy, and the expectations of stakeholders, identifies and determines the ESG-related important topics that reflect the impact of Kelun-Biotech's business activities on the environment, society, and governance.

Determination Process for Important Topics



Based on the comprehensive judgment results and after review by the board of directors and management, we have identified 20 ESG topics of significant impact, including 8 very important topics.



Environment

1. Addressing climate change
2. Energy management
3. Contaminant management
4. Water resource management

Society

5. R&D innovation
6. Intellectual property protection
7. Product safety and quality of service
8. Customer responsibilities
9. Sustainable supply chain management
10. Employee rights and welfare
11. Diversity and equality
12. Occupational health and safety
13. Employee training and development
14. Promoting industry development
15. Facilitating inclusive care
16. Carrying out public charity activities

Governance

17. Compliant operation
18. Business ethics
19. Risk management
20. Data and information security

Matrix of ESG-related Substantive Topics of Kelun-Biotech

1. EXCELLENCE IN GOVERNANCE AND FACILITATING ORDERLY MANAGEMENT

1.1. Compliance and Business Ethics

Compliant Operation

Kelun-Biotech upholds the compliant operation philosophy of integrity and law-abiding, follows laws and regulations such as the Basic Norms for Internal Control of Enterprises, and strictly regulates the company's business conduct.

The company has established and improved systems such as Internal Audit System, Connection Transactions Management System, Management System for Conflicts of Interest, etc., to prevent and control company risks and ensure the compliance of business activities. The company has set up an audit committee under the board of directors to guide and supervise the internal audit department to regularly carry out compliance reviews.

Case | **Kelun-Biotech conducted internal control self-inspection for the year 2023**

To promote the good operation of the company's risk management and internal control, Kelun-Biotech carried out internal control self-inspection in 2023. The self-inspection scope covered all levels of the company, focusing on the review of organizational structure, company governance, information disclosure, internal audit, and risk assessment. In addition, the company focused on reviewing the norms of management processes such as financial reporting, funds, budgeting, production and cost accounting, and product research and development to ensure the compliance of business activities. The self-inspection results showed that in 2023, Kelun-Biotech did not engage in any behavior that violated compliance requirements.

Case | **Kelun-Biotech organized compliance training to enhance employee compliance awareness**

Kelun-Biotech actively organized a variety of compliance training to enhance employees' compliance awareness and work together to ensure the company's operations are legal and compliant. In 2023, Kelun-Biotech invited professionals to provide ongoing compliance training for the company's directors and compliance officers after listing, and the Board of Directors' office organized compliance training for all company employees. The compliance training series adopted a combination of online and offline methods, with the number of attendances reaching nearly 400, effectively enhancing the compliance awareness of relevant personnel.

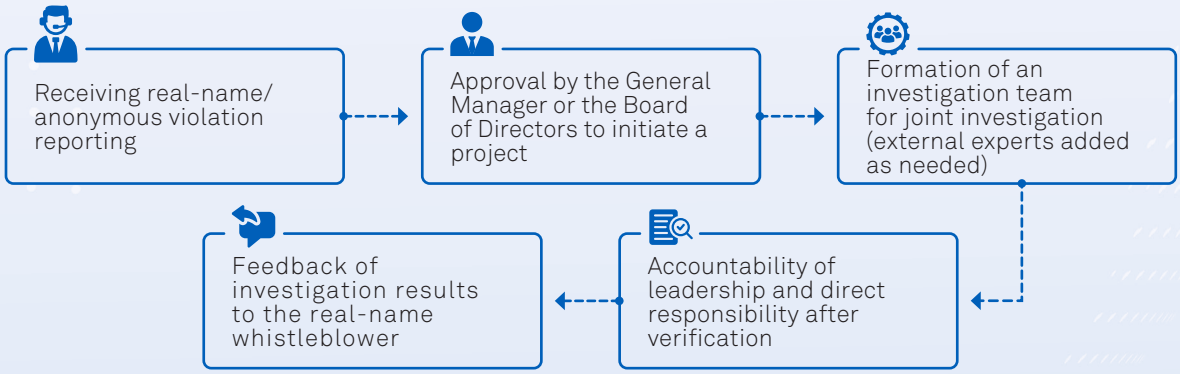
Anti-corruption

In accordance with the requirements of the Company Law of the People's Republic of China and other relevant laws and regulations, we have formulated the Anti-corruption System and the Anti-fraud System to regulate the company's various business activities, establish a business philosophy of integrity and law-abiding, and prevent actions that harm the interests of the company, shareholders, and employees.

Violation Reporting Mechanism

Kelun-Biotech holds a "zero tolerance" attitude towards behaviors that violate business ethics. We have established real-name or anonymous violation reporting channels such as telephone, email, and letters for employees and all parties of society, and strictly keep the information of the whistleblowers confidential. If the reported case is verified to be true, or if there is any act of retaliation against the whistleblower, the company will pursue the legal responsibilities of the relevant personnel according to the law.

Violation Reporting Management Process of Kelun-Biotech



Business Ethics Training

Kelun-Biotech conducts anti-corruption and anti-fraud training for all company employees, laying a solid foundation for a clean office environment. In 2023, full-time employees trained reached 3,573 number of attendances, with training hours exceeding 1,786 hours, and an employee coverage rate of 100%. During the reporting period, there was no embezzlement litigation related to the issuer or employees.

Anti-Corruption Training Series of Kelun-Biotech

Intellectual Property Protection

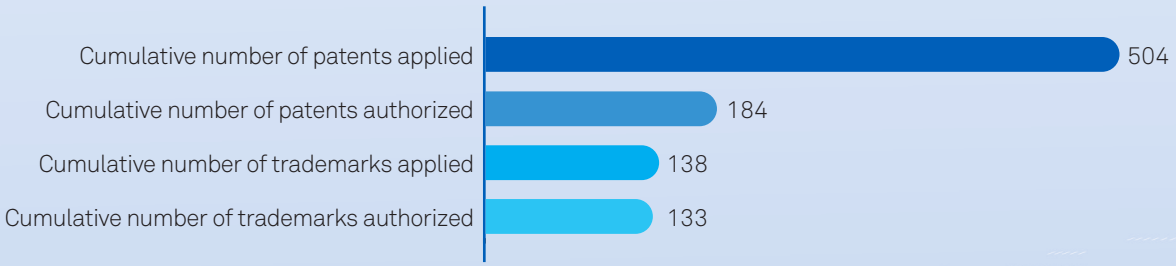
Kelun-Biotech is committed to integrating intellectual property management with the company's overall development strategy. Based on the Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China and other laws and regulations, Kelun-Biotech has formulated the Management Measures for Intellectual Property and Control Procedure for Intellectual Property Risk, continuously improving the intellectual property protection system.

Intellectual Property Protection Management System of Kelun-Biotech

Application for intellectual property ○ Determine domestic and international patent layout strategies to build a tight patent portfolio ○ Achieve three-dimensional protection of intellectual property rights from aspects of patents, trademarks, trade secrets, etc.
Intellectual property maintenance ○ Establish a monitoring mechanism for company patents, trademarks, and other information ○ Regularly monitor application progress, deadlines, and status to ensure the normal operation of the entire lifecycle of intellectual property rights
Intellectual property risk management ○ Standardize the free implementation process of innovation projects, and check internal and external patent risks before project initiation and at important R&D milestones ○ Establish a third-party infringement response mechanism, and improve measures for infringement prevention and response
Construction of talent team ○ Set up an intellectual property department and allocate professional intellectual property personnel ○ Keep up with domestic and international intellectual property trends, and regularly conduct intellectual property business training

Based on the international advanced experience and higher quality and efficiency standards, Kelun-Biotech conducts intellectual property work around the company's products and pipelines, implements reasonable and effective incentive mechanisms for intellectual property rights, strengthens the construction of intellectual property team, and continuously improves the quality and efficiency of work. By the end of 2023, Kelun-Biotech has achieved fruitful results in patent and trademark applications and authorizations, and no litigation related to intellectual property has occurred.

Intellectual Property Performance of Kelun-Biotech in 2023



1.2. Information Security and Privacy Protection

In order to ensure the safety of the company's information system, Kelun-Biotech shall strictly comply with relevant laws and regulations, formulate and implement detailed information security management regulations, and establish and continuously improve a safety-in-depth protection system including basic security protection, cyber security, cloud security, etc. We pay special attention to the establishment of information systems, authorization and access control, data protection, etc., and strictly guarantee the security of network infrastructure and data assets.

In terms of patient privacy protection, all research and development and clinical projects of Kelun-Biotech strictly adhere to Good Clinical Practice (GCP) and the Declaration of Helsinki (the World Medical Association), and fully promote the awareness of patient privacy protection for project members to strictly ensure that patient privacy is not disclosed.

1.3. Risk Management

Kelun-Biotech integrates risk management into every aspect of company operations, formulates Risk Management Methods according to laws and regulations such as the Company Law of the People's Republic of China and Basic Norms for Internal Control of Enterprises, and establishes a comprehensive risk prevention and control system to enhance the company's risk response capabilities.

Organizational Structure of Risk Management of Kelun-Biotech

Board of Directors	Highest decision-making body ○ Approve goals, strategies, systems, and system construction plans ○ Review and approve annual work plan and report ○ Review and approve major risk response plans, etc.
Risk Prevention and Control Leading Group	Leadership ○ Establish risk management objectives and strategies ○ Review system, process and system-building program ○ Review annual work plans and major risk response plans, etc.
Internal Audit	Management, executing agency ○ Draft systems and processes, work plans, annual work reports, and major risk management solutions ○ Conduct oversight, inspection and effectiveness assessment ○ Organize educational training and publicity work, etc.
Functional departments	Risk Management Lead ○ Conduct daily maintenance and management ○ Identify, assess, and develop risk control solutions for business operations ○ Carry out special risk prevention and control work, and study the major risk management mechanisms of this department, etc.

For the normalized risks and potential emergency risks faced by the company's operations, we have clearly stipulated the prevention and response processes in the Risk Management Measures, and effectively carry out various tasks such as risk prevention and control, hidden danger investigation, and normal management, to ensure the normal operation of the company's business.

Risk Prevention and Response of Kelun-Biotech

Risk Assessment	Risk Response	Emergency Risk Handling
○ The responsible entity identifies, analyzes, and evaluates risks in the company's important business management and processes ○ Use qualitative and quantitative standards to assess the likelihood and impact of risks ○ When assessing multiple risks, prioritize them to determine the risks that require key attention and limited control	○ Develop and implement risk resolution solutions based on assessment results, keeping risks within the company's acceptable range ○ For major risks, in addition to taking corresponding measures to control, avoid, and resolve them, a record form must also be filled out and submitted to the risk prevention and control leadership group and the internal audit department	○ Establish a sensitive and efficient emergency risk response mechanism, and report immediately to the corresponding level of responsible person when a risk occurs ○ For major emergency risks, a risk disposal team should be established immediately, develop a risk disposal plan, and carry out disposal actions immediately ○ After the disposal is completed, promptly form a summary report and propose rectification suggestions to prevent the risk from occurring again

2. EXCELLENCE IN QUALITY AND SERVICE FOR SAFETY OF THE PUBLIC

2.1. Quality Responsibility

As a R&D, production and commercial enterprise of innovative drugs, Kelun-Biotech has always placed product quality and patient safety at the top of enterprise management and development, and adheres to the quality policy of "Dedicated to Human Health With A Caring Heart", and works together with partners to create a community of quality responsibility throughout the supply chain.

Quality Management System

Kelun-Biotech adheres to the principle of Quality by Design, and establishes a whole product lifecycle quality management system covering all stages of R&D, production and commercialization in accordance with GxP standards and ICH guideline in China, EU and the United States. The company promotes the continuous improvement of the system and ensures the robust and reliable quality of products through internal self-inspection and periodic review of products and systems to ensure the safety of drug use by patients.

Product Quality Control

In accordance with the principle of "Quality by Design", during the product development process, Kelun-Biotech develops a Quality Target Product Profile (QTPP) to determine the quality attributes of desired products. Subsequently, we determine the critical quality attributes based on data assessment from pharmaceutical, nonclinical and clinical studies, and used risk control tools to identify material attributes and process parameters affecting critical product quality attributes (CQA). The product quality control strategy is gradually determined and implemented through process study, characterization and validation, and the control strategy is continuously optimized and updated as the study process progresses to ensure product quality.

Kelun-Biotech implements sound quality control and management throughout the production process of products. Relying on the comprehensive and technologically advanced quality control laboratory, the company carries out the release testing of raw materials, intermediate products and products, in-process control, validation, stability studies, and monitoring related to utility systems and environment to ensure the safety and quality control of released products at all stages.

Quality Audit

The product quality of Kelun-Biotech has been widely recognized by relevant parties. In 2023, Kelun-Biotech received a total of 3 external inspections and audits from Chinese drug regulatory authorities and collaborators, all of which were successfully passed and no major deficiencies were found. The ADC product line has successfully passed the GMP compliance inspection by the national drug regulatory department.

Quality Training and Culture Promotion

Kelun-Biotech advocates an enterprise culture centered on quality and integrity. In order to effectively improve the quality awareness and ability of all employees, Kelun-Biotech conducts induction training including corporate culture, GxP regulations, post documents and practices for new employees in R&D, production, quality and other relevant positions. The company also develops training plans annually in accordance with regulatory requirements, conducts training on regulatory regulations, new guidance documents, post skills, etc., and carries on examinations in the form of written assessments, oral questions and answers after training to ensure that employees fully master the training content.

In the area of GMP training management, in addition to company-level training such as GMP-related knowledge, aseptic technology and bio safety-related knowledge, the company conducts special training for different positions in combination with its departmental functions and responsibilities and post needs. For example, the QA department offers courses on QA quality management skills enhancement, domestic and international drug inspection defect cases, and pharmaceutical trend analysis.

In 2023, Kelun-Biotech carried out a total of 2,618 quality-related training sessions, including document training, annual GMP topic training, quality incident training, and other knowledge or technical sharing training, combining online and offline methods, covering all employees of the company, with 100% of employees passing the post-training assessment.

Clinical Quality Management

As a clinical trial sponsor, Kelun-Biotech is firmly committed to protecting the rights and safety of the subjects. The company always follows laws and regulations such as Good Clinical Practice, Declaration of Helsinki (the World Medical Association), and Management Measures for Drug Registration, establishing a comprehensive clinical trial quality management documentation system, ensuring that key and important aspects of the clinical trial process are well-regulated, while protecting the health of the subjects and ensuring that the trial data and results are scientific, authentic, and reliable.

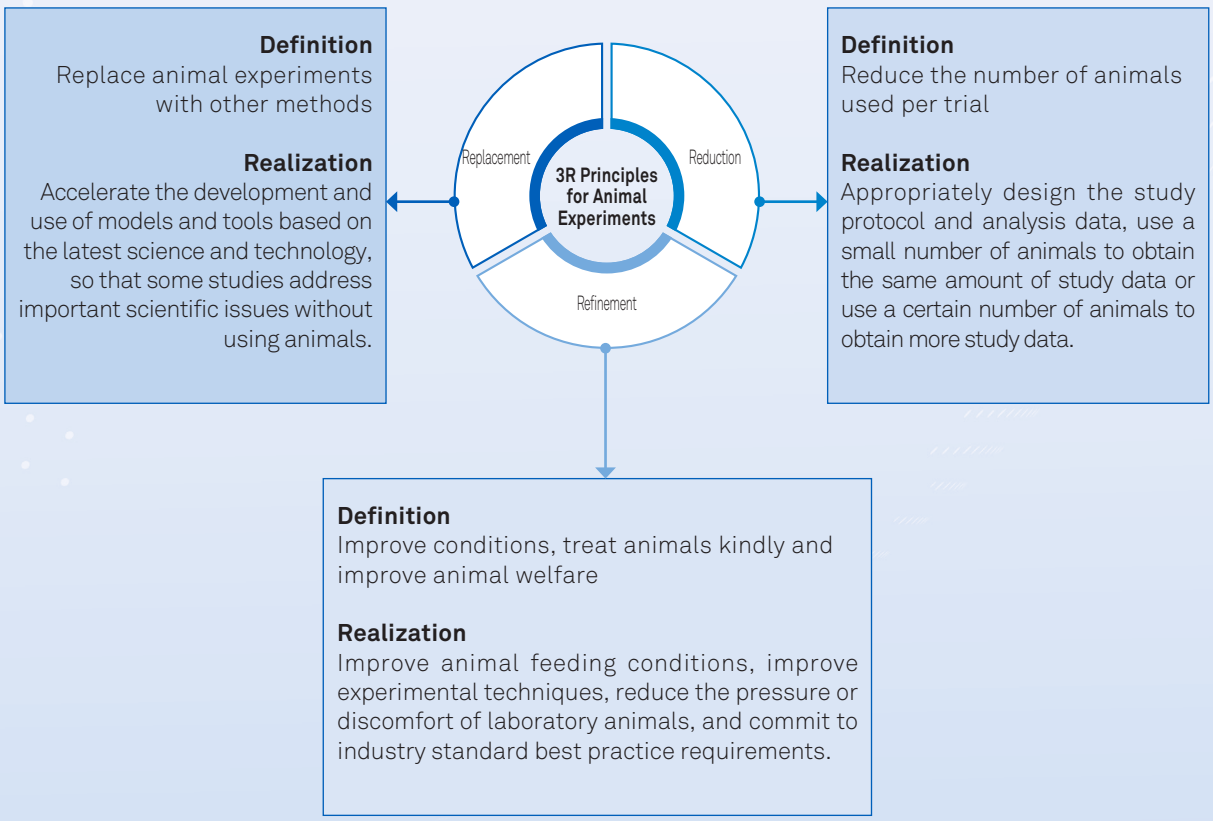
The company conducts clinical quality management in the form of “project management”, equipping each clinical project with a project management team, and organizing team members to complete relevant training to ensure the smooth progress of the project. We require each project to develop a quality control plan and an audit plan, and to implement quality control and audit actions on-site according to the planned milestones.

In order to fully protect the rights and interests of subjects, Kelun-Biotech purchases Drug Clinical Trial Insurance for each subject participating in the clinical trial, and ensures the scientificity and reliability of the trial.

Animal Welfare

Experimental animals are an important support for pharmaceutical research and development and life science research. Kelun-Biotech attaches great importance to the social concern for animal welfare. We have established the Institutional Animal Care and Use Committee (IACUC) to review the study protocol and commit to using animals responsibly. We respect the contributions made by experimental animals to research, comply with legal and regulatory requirements such as the Guidelines for the Protection and Use of Laboratory Animals, and have formulated and strictly implemented internal policies such as Procedures for Establishing Humane Endpoints for Laboratory Animals and Accuracy Control of Drug Administration in Animals to ensure that animal use meets ethical standards.

In the scientific research work, we follow the 3R principle, implementing the ethical treatment of laboratory animal welfare in all aspects including breeding, transportation, experimental design, experimental process and post-experimental disposal to ensure the welfare of laboratory animals. The company also conducts training for employees involved in animal experiments to ensure that each research is efficient, accurate, and minimizes animal discomfort.



Pharmacovigilance

Kelun-Biotech pays high attention to drug safety, continuously improving the pharmacovigilance system, and carrying out whole-lifecycle drug safety management for products.

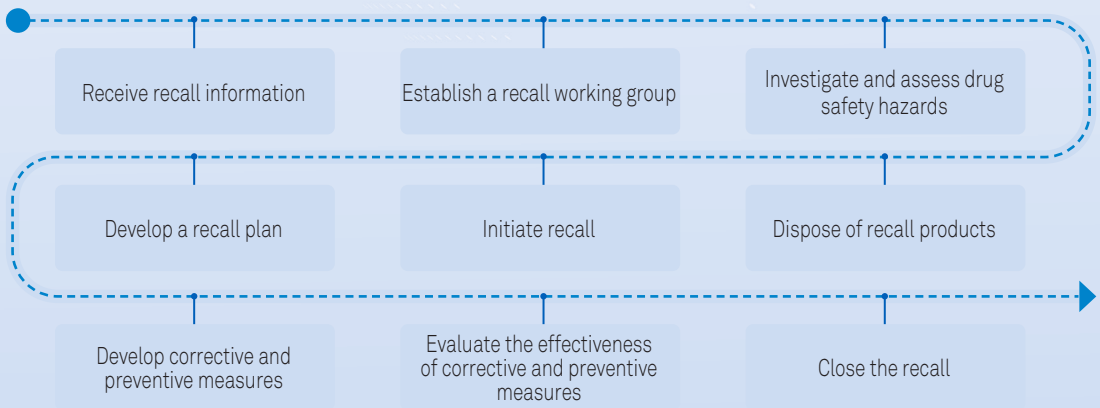
Pharmacovigilance System of Kelun-Biotech

Development phase	Establish documents of pharmacovigilance signal detection and risk management process, regularly carry out signal detection, signal verification, and assessment for active products under research, and develop risk control measures to protect the safety of subjects.
Clinical trial phase	Collect adverse reactions caused by medication as specified in the clinical trial protocol, and if they meet the Serious Adverse Event (SAE) criteria, take emergency measures promptly and include the results in the clinical trial analysis. For pregnant subjects, the company has established a clinical trial pregnancy event management system, continuously tracking the condition of pregnant subjects until the end of the pregnancy.
Post-commercialization phase	Set up public email, 400 hotline, official website, and other feedback channels to receive patient medication information and adverse reactions.

Product Recall

Kelun-Biotech has established management procedure for product recall, clarifying product recall conditions, product recall handling processes, product recall disposal methods, etc. to conduct a thorough investigation, comprehensive evaluation and timely recall of drugs that may have quality problems or other safety hazards. The company regularly carries out simulated recall drills to ensure the timeliness and effectiveness of the system.

Product Recall Procedure of Kelun-Biotech

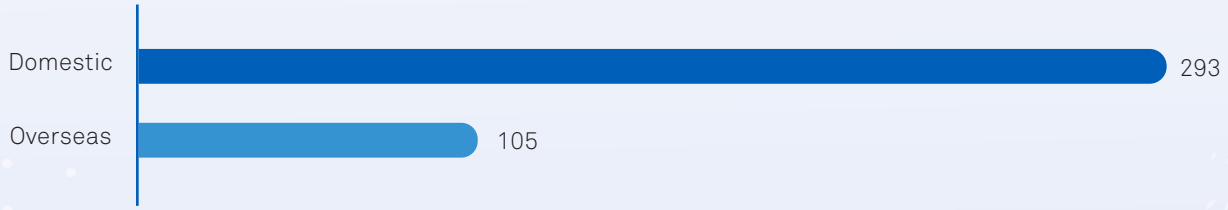


During the reporting period, the company did not have any actual product recall events.

2.2. Supply Chain Management

A responsible, efficient, and green supply chain is crucial to the development of a company. Kelun-Biotech continues to improve its supply chain management system, strengthens communication with suppliers and partners, and promotes the formation of an efficient and sustainable supply chain, striving to achieve mutual success with partners.

The main types of commodities purchased by Kelun-Biotech are raw materials and consumables for drug development and production, equipment and installations for production activities, and CRO services for third-party contracting for R&D. At the end of the reporting period, the company had a total of 398 suppliers, distributed in the following regions:



Supplier Quality Management

In reference to national and local laws and regulations, Kelun-Biotech has formulated internal systems such as Management Procedure for Procurement and Supply, Supplier Management Procedure and Audit Management, which clearly stipulate the supplier selection process and supplier behavior standards. Through qualification verification, audit supervision, and assessment evaluation, we continuously strengthen the full lifecycle control of suppliers to ensure that the quality of goods provided by suppliers meets compliance requirements and company needs.

To optimize supply assurance and deepen supplier communication, the company has established an objective, quantitative, and scientific supplier assessment mechanism to carry out regular and irregular assessments and evaluations of suppliers. Every year, we conduct performance scoring of major suppliers whose total purchase amount accounts for about 80% in terms of product quality, delivery guarantee, price level, service quality, payment methods, and invoice compliance, and based on the scoring results, we issue Supplier Performance Evaluation and Feedback to require suppliers to improve and track the improvement. In 2023, the company conducted assessments of 147 major suppliers, with excellence and good rates exceeding 97%.

Supplier Compliance Management

Kelun-Biotech requires employees to comply with the Purchasing Code of Conduct and the Anti-Corruption System when conducting purchasing activities, and fill in and sign the Employee Confirmation at least once a year to ensure that there are no violations of commercial ethics during the procurement process.

For suppliers, we require them to sign the Sunshine Agreement, strictly comply with anti-corruption and anti-commercial bribery laws and regulations, and declare that no bribery or other illegal activities will occur during the cooperation process. In 2023, the 381 suppliers with whom the company is involved in business signed the Sunshine Agreement.

During the reporting period, the company strengthened supplier compliance management and conducted multiple compliance reviews for suppliers from different segments:

Clinical segment

Send "Letter on Requirement of Self-inspection of Compliance" to various suppliers of clinical plate, requesting them to self-check whether there are any violations of laws and regulations in their cooperation with Kelun-Biotech. In 2023, the company sent letters to 126 suppliers and received 119 responses, and no violations of compliance requirements were identified.

Non-clinical segment

New suppliers are required to fill out the Survey Questionnaire for Supplier Compliance to understand the supplier's compliance management situation. The questionnaire includes the establishment of supplier compliance department, the formulation of anti-corruption, anti-bribery, confidentiality, and whistleblowing policies, etc., which can effectively judge the company's compliance risk management ability. In the future, we plan to extend the Survey Questionnaire for Supplier Compliance to all suppliers.

Sustainable Supply Chain

Kelun-Biotech pays attention to the performance of suppliers in environmental and social aspects. When creating supplier files, the company investigates whether suppliers have passed ISO14001 environmental management system certification, ISO45001 occupational health and safety management system certification, or other relevant certifications. We encourage and expect suppliers to establish and improve internal management systems to enhance the sustainable attributes of goods.

As of the end of the reporting period

The number of major suppliers certified by ISO14001: **50**

As of the end of the reporting period

The number of major suppliers certified by ISO45001 or equivalent: **34**

To reduce supply chain risks and transportation emissions, the company has set up warehouses in multiple locations including Chengdu, Shanghai, and Beijing, and suggests that overseas suppliers establish local factories to enhance cooperation stability.

Case | **Kelun-Biotech implements green procurement**

Kelun-Biotech prefers to choose larger product packaging or packaging that can be recycled and reused in procurement. In 2023, we changed the packaging boxes of 5L chemicals for research and development from cardboard boxes to plastic crates, and changed the packaging of dichloromethane and ethyl acetate from 25kg small barrels to 250L large iron drums, effectively reducing waste emissions by implementing control from the source.

Case | **Kelun-Biotech implements green logistics**

Kelun-Biotech promotes the development of green logistics by upgrading transport vehicles. In 2023, we have actively optimized the means of transport, adding 2 new-energy electric vehicles to replace the traditional mode of transportation, and carry out the distribution of various materials in the plant area. Large-capacity new-energy electric vehicles not only improve transport efficiency, but also effectively reduce greenhouse gas emissions, and promote the company's green operation and sustainable development.

2.3. Customer Service

Customer Service Mapping

Based on the current product pipeline, Kelun-Biotech's target customers mainly include Grade A Class 3 hospitals with a demand for innovative drugs to address medical needs, and close communication and cooperation with hospital doctors are very important for product success.

During the reporting period, the company actively explored the commercialization process, continuously improved commercial infrastructure, and expanded the sales and marketing network. We are building a customer management information system to record and analyze customer information and product feedback after product launch.

The company also actively carries out marketing personnel improvement, and formulates the Management Process for Market Promotion, to standardize marketing activities in terms of planning, execution, and promotional materials. For new marketing staff, we organize new employee training, covering medical knowledge, product knowledge, company procedures and regulations, and organize special learning sessions periodically according to newly released policies and systems.

3. DEDICATED TO CONTRIBUTION AND PROMOTING OUR ENTERPRISE VALUE

3.1. Win-win Industry Cooperation

Kelun-Biotech is well aware that the development of the pharmaceutical industry cannot be separated from the collaboration of peers and all sectors of society. The company contributes positively to the development of the pharmaceutical industry by establishing a long-term innovation platform and technical development cooperation mechanism, creating a high-quality industry cooperation model. At the same time, we actively participate in the formulation of industry standards and various academic exchange activities, continuously promoting the industry's standardization, normalization and modernization development.

Deepening Industry Cooperation

Kelun-Biotech Led the Establishment of a "National" Innovation Platform

In response to the government's innovation strategy, Kelun-Biotech, with its advantages in innovative drug research and development, took the lead in establishing the Biotargeted Drug Engineering Research Center. The company, in conjunction with 39 top domestic research and clinical research institutions such as China Pharmaceutical University, Shanghai Institute of Materia Medica of the Chinese Academy of Sciences, Sichuan University, and Southwest Medical University, as well as national high-level platforms such as the National Precision Medicine Industry Innovation Center and the National Engineering Research Center for Isotopes and Pharmaceuticals (Nuclear Power Institute), formed a strategic alliance to promote industrial innovation. This innovation platform was approved by the National Development and Reform Commission in 2022, and as of the end of the reporting period, the platform has been operating stably.

The company also opens its technology platform to the public, providing services for innovative drug research and development, pilot production, and commercialization, accelerating the transfer and transformation of technological achievements, and promoting industry development.

Promoting Industry Innovation

Kelun-Biotech maintains a good academic exchange mechanism with experts and enterprises at home and abroad, actively participates in academic conferences and forums such as the American Society of Clinical Oncology (ASCO) and the European Society for Medical Oncology (ESMO), shares the latest clinical research results of oncology, conducts high-quality exchanges with attendees, promotes innovation breakthroughs, and brings gospel to more cancer patients.

Case | **Kelun-Biotech participates in international forums to share the latest results**

In 2023, Kelun-Biotech shared data from phase 1 clinical studies of the second-generation selective RET inhibitor A400 at the ASCO annual meeting and conducted in-depth communication with industry experts. The efficacy and safety data of Kelun-Biotech A400 are highly recognized by international experts, and clinical studies are being conducted simultaneously in China, the United States and Spain to promote the clinical application process through multi-party cooperation to provide high-quality and accessible treatment options for patients worldwide.

Participating in Formulation of Industry Standards

Kelun-Biotech actively promotes industry standardization and normalization, and provides technical and practical support for industry development by participating in the drafting, revision and discussion of domestic and international regulatory guidelines in pharmaceutical related fields. As of the end of the reporting period, Kelun-Biotech participated as the main participant in the discussion of several domestic ADC technical guidelines and standards, including the Guidelines for GMP Implementation of Pharmaceuticals, which was reprinted in 2023, and the General Monograph of Human Antibody-Conjugated Pharmaceutical Products in Chinese Pharmacopoeia, etc.

3.2. Facilitating Inclusive Care

Kelun-Biotech regards promoting inclusive healthcare and public health benefits as an important responsibility of the company. The company cooperates with multiple parties to explore ways to enhance product accessibility, to meet the medical needs of more patients.

Case | **Kelun-Biotech's main product A400 has been granted Orphan Drug designation by the FDA**

Orphan drugs refer to drugs used for the prevention, treatment, or diagnosis of rare diseases. The Orphan Drug designation granted by the U.S. Food and Drug Administration (FDA) applies to drugs for rare diseases that affect fewer than 200,000 people in the United States each year. In November 2023, Kelun-Biotech's second-generation selective RET inhibitor A400 received the FDA's Orphan Drug designation for the treatment of RET fusion-positive solid tumors. In the future, the company will continue to explore solutions for more clinical needs.

Cross-border Business

Kelun-Biotech actively advances the development of cross-border business. As of the end of the reporting period, the company has established a strong cross-border business system, conducting localized business in multiple jurisdictions including New Jersey, USA.

The company adheres to an open and cooperative mindset, actively seeking external collaborations, licensing arrangements, and other strategic partnerships, striving to explore overseas markets through synergistic effects and expand the reach of its products. As of the end of the reporting period, we have signed a number of external licensing agreements with Merck Sharp & Dohme, Ellipses and other partners to complement each other's strengths, and make full use of their respective advantageous resources to expedite project development, clinical transformation and commercialization. See the section headed "Management Discussion and Analysis" of this Annual Report.

3.3. Social Co-construction

Kelun-Biotech actively assumes corporate social responsibility, pays close attention to the needs of the nation and operational locations, utilizes its own resources and advantages to serve society, and contributes to social development and community construction.

The company strengthens its investment in public welfare causes, encourages employees to participate in public welfare, and forms a public welfare culture. We have established the Management System for External Donation, which clarifies the key directions for donations, donation principles, methods of donation, and management approval procedures, effectively enhancing the transparency of the company's donations. During the 2023 earthquake in Gansu, we participated in the public welfare activities of China Post and donated materials to the disaster areas.

As enterprise citizens, we actively participate in community governance, offering suggestions to the government on community traffic, safety, and public services. For example, we proposed setting up a green protective belt at the entrance of the company, effectively reducing traffic accidents and improving road safety.

4. PEOPLE ORIENTED AND DEDICATED TO PROGRESS WITH OUR EMPLOYEES

4.1. Diversity, Equality and Inclusion

Lawful Employment

Kelun-Biotech strictly abides by the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and all relevant laws and regulations within the scope of operation, and has formulated the Recruitment Management System of Kelun-Biotech to standardize recruitment practices and prepare a reserve of high-quality talent for the company's sustainable development.

In the recruitment process, Kelun-Biotech ensures that candidates are not unfairly treated due to various factors such as race, gender, nationality, religious beliefs, age, marital status, etc., and guarantees equal pay for equal work for male and female employees. Furthermore, Kelun-Biotech explicitly stipulates in the Recruitment Management System that employees must meet the national labor age requirements, and the Human Resources Department conducts strict scrutiny of employee identity information during the employment contract signing stage. We strictly prohibit the employment of child labor or forced labor, and will punish the relevant personnel in strict compliance with related requirements once we identify such situation.

In 2023, the company did not have any incidents of employing child labor, forced labor, or discrimination.

Employment Performance of Kelun-Biotech in 2023

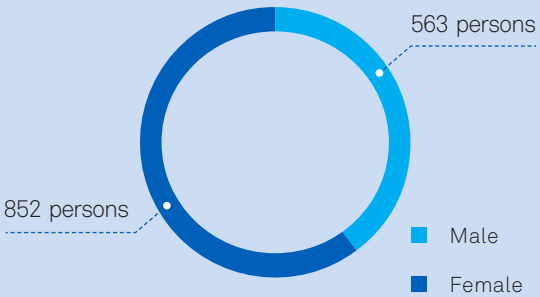
By type of employment

Full-time
1,415 persons

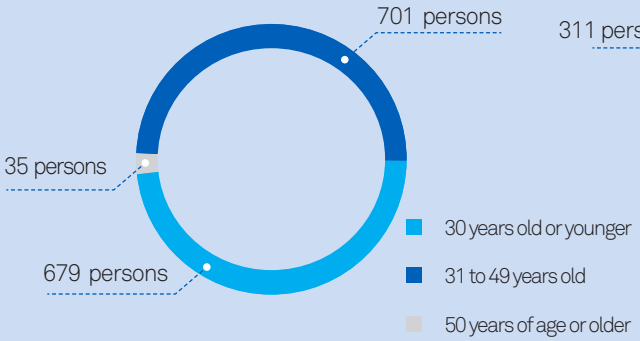
Part-time
62 persons

Outsourcing
24 persons

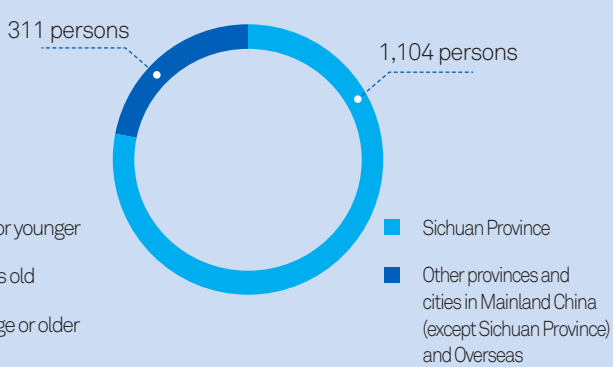
By gender (Full-time employees)



By age (Full-time employees)



By region (Full-time employees)



Attraction and Retention of Talents

Kelun-Biotech is well aware that talent is an important cornerstone of the company and the core competitiveness for high-quality development. We actively carry out school-enterprise cooperation projects, continuously improve welfare guarantees, and use multiple strategies to attract and retain high-quality talent, ensuring the company's sustainable development.

School-enterprise Cooperation

To cultivate outstanding pharmaceutical professionals with solid basic theory, outstanding practical innovation ability, and high professional quality, Kelun Pharmaceutical has joined hands with the West China School of Pharmacy, Sichuan University, to establish the "Kelun Class", providing customized enterprise training and professional practice opportunities for undergraduates and postgraduates, and by 2023, six undergraduate training programs and two postgraduate training plans have been completed.

Case **Kelun-Biotech hosted the "Go into Kelun Research Institute" event**

In 2023, the Company hosted the "Go into Kelun Research Institute" event, leading students of "Kelun Class" into the enterprise for visits, answering students' questions about the development of the pharmaceutical industry and personal career planning, and inviting the company's main scientific research force to conduct a special lecture on ADC drugs, sharing global drug demands and R&D trends, introducing Kelun-Biotech's significant innovative achievements, and answering students' questions about the development of the pharmaceutical industry and personal career planning.

Lecture and Exchange Event: Go into Kelun Research Institute

Attraction of Overseas Talents

With the advancement of Kelun-Biotech's drug research and development and commercialization layout, the company extensively recruits outstanding global talents, striving to build a high-level, diverse talent team with complex backgrounds. We actively respond to the Sichuan Province's incentive work for high-end talents in short supply from overseas, organizing eligible overseas talents to apply for recognition. In 2023, the company applied for the recognition of three individuals as high-end talents in short supply from overseas in Sichuan Province, obtaining a total of RMB1.054 million of incentive grants.

4.2. Employee rights and welfare

Employee Welfare System

Compensation System

Kelun-Biotech, in accordance with the Labor Law of the People's Republic of China and other laws and regulations, has established a Compensation Management System that consists of a compensation structure made up of basic salary, variable salary, and various benefits, continuously improving the company's compensation mechanism.

We follow the principle of paying labor remuneration based on contribution and performance, creating a healthy competitive mechanism within the company, ensuring that our compensation level is appropriate for the company's development stage and profitability. Combined with various incentive measures such as equity incentive, the salary of employees has a certain competitiveness in the industry, so as to achieve the purpose of effectively attracting, retaining and motivating talents, enhancing the company's core competitiveness.

Employee Welfare Safeguards

Kelun-Biotech has established a comprehensive welfare management system, providing employees with good welfare guarantees, creating a warm working environment, and continuously enhancing employees' sense of happiness and belonging.

Employee Welfare Guarantee of Kelun-Biotech

Statutory Benefits

- Five social insurance and one housing fund
- Various paid leave entitlements stipulated by law

Care Welfare

- Traditional holiday welfare
- Housing, dining, and transportation subsidies provided by the company
- Employee canteen
- Employee dormitories and shuttle services for commuting
- Employee Commercial Insurance

Case | **Recognition of outstanding teams and employees for the year 2023**

To motivate teams and employees with excellent qualities such as "proactivity, overcoming difficulties, willingness to work hard, and high efficiency," Kelun-Biotech recognizes advanced groups and individuals. In 2023, based primarily on work performance, a total of 19 advanced teams and 77 advanced individuals were commended and rewarded, with a focus on encouraging frontline teams and employees, mobilizing their enthusiasm for performance output, and jointly creating new achievements.

Case | **Female employee care**

Kelun-Biotech pays attention to the labor-forbidden conditions and legal rights for female employees during special physiological stages such as menstruation, pregnancy, and lactation. We have established priority seating for pregnant women on all shuttle buses to ensure the safety and convenience of commuting for pregnant employees. In addition, we have set up a dedicated mother and baby room to protect lactating female employees, reflecting Kelun-Biotech's care for women.

Priority seating has been established for pregnant women in the Kelun-Biotech staff shuttle bus

Employee Communication

To guide and encourage employees to exhibit a sense of ownership, and to put forward innovative suggestions and improvement ideas that are conducive to enhancing the quality of business operations and management capabilities, Kelun-Biotech has formulated the Management System for Rationalization Proposal Activities and organized the collection of rationalization suggestions. The company encourages employee feedback through institutionalized reward measures, maximizes the exploration of employee innovation, and promotes the development of the company's production and operations.

Case **Kelun-Biotech launched rationalization proposal solicitation in 2023**

In 2023, Kelun-Biotech launched rationalization proposal solicitation, widely collecting employee suggestions. During the activity, employees provided a variety of proposals on improving company management, optimizing processes, and enhancing work efficiency, such as improving company safety, lighting, instrument management, waste liquid management, and lean management, to improve the quality of the company's operations. This year, a total of 153 rationalization suggestions were collected, with 137 proposals adopted (including partial adoption). Among them, the company received 9 cost-saving proposals, which are expected to save more than RMB1.6 million for the company.

Colorful Workplace

Kelun-Biotech establishes staff unions, regularly holds or organizes employees to participate in a variety of team-building activities such as cycling, basketball, badminton and table tennis to create a green, humanistic and comfortable working and living environment, encouraging employees to fully showcase themselves outside of work, enhance colleague friendships, and increase the well-being of employees.

Case **Kelun-Biotech encouraged employees to participate in community sports events**

In 2023, Kelun-Biotech encouraged employees to participate in various sports events such as basketball games and sports meets organized by the jurisdictions. In addition, the company's union took the lead in organizing internal basketball competitions, enhancing the competitive fun by setting up various game formats, enriching employees' leisure activities, strengthening physical fitness, and enhancing team spirit.

2023 Labor-union Activities and the Ninth Basketball Tournament of Kelun-Biotech

4.3. Employee training and development

Career Development

To meet the development needs of employees and build a sustainable talent team, the company has formulated a Promotion Management System applicable to all Kelun-Biotech employees, creating promotion channels for various function sequences, and providing employees with a broad space for career development.

Function Sequences of Kelun-Biotech

Sequence	Applicable Personnel
Management sequence (Management, abbreviated as Class M)	Applicable to those with team management functions, who lead the team to achieve business goals through the management of personnel and the use of resources.
Support sequence (Support, abbreviated as Class S)	Applicable to those engaged in professional work in support functions such as administration, audit, legal affairs, finance, human resources, procurement, and warehousing.
R&D sequence (Research, abbreviated as Class R)	Applicable to those engaged in research and development and related work throughout the R&D process (including but not limited to project initiation, registration, project management, intellectual property, etc.).
Production sequence (Production, abbreviated as Class P)	Applicable to those engaged in production and work directly related to production support (including but not limited to production quality assurance, equipment maintenance support).

The company continuously improves the employee assessment and promotion system, combines the actual situation of each department to formulate "Position Descriptions", clarifies the individual career development paths of employees, and promotes the selection and reservation of core talents. In 2023, Kelun-Biotech continued to conduct a full-staff assessment with a coverage rate of 100%. Among them, 460 employees achieved career advancement through assessment during the reporting period.

Case | **Kelun-Biotech's internal transfer mechanism**

Kelun-Biotech has established an internal job transfer mechanism that respects the career development wishes of employees, allowing them to apply for other positions within the company, and is committed to tapping into employee potential. The company will fully consider the job requirements and employee preferences, open internal interviews to interested employees, and allow internal transfers upon passing the assessment. In 2023, Kelun-Biotech provided internal transfer opportunities to 22 employees, effectively enhancing the organization's flexibility.

Employee Training

Kelun-Biotech focuses on employee improvement, formulating a Training Management System that requires the HR department to organize each department to develop an annual training plan, and to track and supervise the implementation of training. By establishing a diverse and flexible training mechanism, we help employees achieve effective self-improvement.

Case | **Kelun-Biotech's diverse skill training for employees**

Kelun-Biotech provides employees with a variety of professional skills training, specifically aimed at enhancing individual capabilities. Departments organize personnel to participate in external training based on the practicality and actual needs of the training topics, with the goal of expanding industry resources, enhancing professional knowledge and management skills, and organizing internal transfer training for valuable training content. In 2023, the business department of Kelun-Biotech organized external training for 485 number of attendances.

Kelun-Biotech Organizes Professional Skill Training for Employees

In 2023, the company conducted 2,507 training sessions, with a total of 93,675 participants, a total learning time of 115,258 hours, a 100% employee coverage rate, and an average training duration of 81.43 hours.

4.4. Occupational health and safety

Safe Production

Safe Production Management System

In the area of safe production management, we strictly follow laws and regulations such as the Safe Production Law of the People's Republic of China and the Occupational Disease Prevention and Control Law of the People's Republic of China, and have formulated a Safe Production Responsibility System and Management System for Factory Safety applicable to Kelun-Biotech, clarifying safety responsibilities at all levels, and standardizing safety management requirements for factories, workshops, facilities, special operations, etc., providing employees with a safe and effective working environment.

Kelun-Biotech establishes a Safety Production Committee. The main responsible person of the enterprise is the first responsible person for safe production, and the person in charge of each department is the first responsible person for safe production of the department. In accordance with the principle of "three management and three musts" for safe production, i.e., "the industry managers must manage safety, the business managers must manage safety, and the producers and operators must manage safety". The safety management work is carried out from three levels of the company, department and team, and the person in charge at each level is the first responsible person.

Kelun-Biotech establishes a dual preventive mechanism, forms relevant management systems, clarifies the process of risk classification management and management of hidden hazards, organizes workshops of all departments to use tools such as LEC/JHA, conducts comprehensive risk assessment of existing post production operations, production equipment, etc., and supplements control measures for high-risk items to reduce their risk degree.

Furthermore, Kelun-Biotech combines the post and equipment risk card in the double system and the daily hidden danger investigation record table to form a mechanism of "three-in-one tables", which is posted or hung at the post site to conduct daily investigation and confirmation of the risk points and danger sources of the post. If potential accidents are discovered, the relevant responsible departments must promptly formulate corrective measures and implement them in a timely manner to ensure that the production process complies with safety and environmental protection requirements, and to enforce the Management System for EHS Accident Investigation and Accountability in the event of accidents. During the reporting period, the company's investment in occupational health and safety reached RMB1.2636 million.

Safety Objectives and Performance

Kelun-Biotech always adheres to the principle of "safety first, prevention foremost, and comprehensive management", setting an annual goal of zero major and particularly major accidents. The company achieves a comprehensive safety management system by regularly conducting safety hazard inspections, meetings and training, comprehensive emergency drills, and other forms of activities, effectively raising safety awareness among personnel and providing a safe working environment. The 2023 annual objective was successfully met, with no safety accidents occurring within the year.

Safety Training

The EHS Department of the company regularly organizes all functional departments to participate in various types of safety-related training activities, including internal safety training and outsourcing professional skills training. A total of 32 safety training sessions covering 5,708 number of attendances were conducted in 2023, with cumulative credit hours exceeding 7,077 hours.

Case | **Kelun-Biotech's "Implementing Safe Production Responsibility" event**

In 2023, the EHS department took "Implementing Safe Production Responsibility" as the theme of the activity, carrying out safety-month theme publicity, job risk identification training, and standardization of three-level safety education training across the entire company, guiding employees to actively participate and implement the comprehensive safety responsibility system. The EHS department also organized special training on labor protection equipment to enhance employees' awareness of safe production responsibilities and ensure that the production process complies with relevant regulations.

"Implementing Safe Production Responsibility" event of Kelun-Biotech

Occupational Health

Occupational Health Management System

Kelun-Biotech places great emphasis on occupational health and safety of employees, strictly follows laws and regulations such as the Occupational Disease Prevention and Control Law of the People's Republic of China and Regulations on the Periodic Inspection and Management of Occupational Disease Hazards for Employers, formulates and implements the Management System for Monitoring and Evaluation of Occupational Disease Hazards and Management Procedure for Occupational Health Promotion and Education of Kelun-Biotech.

At the same time, due to the particularity of Kelun-Biotech products, the company has taken a series of stringent measures, including determination of OEL values, classification of OEB grades, qualitative risk assessment of the whole process, use of closed equipment and systems, provision of labor insurance products and training, compliance with waste disposal, and development of special emergency disposal plans, etc., to continuously optimize engineering protection. The company also invites the third-party institutions to conduct tightness testing to strictly ensure the health and safety of employees.

Objectives and Performance

Kelun-Biotech has set an annual goal of zero occupational disease hazard accident, and through occupational health examinations, labor protection equipment allocation, detection of occupational hazards at the workplace, and emergency drills, it works to prevent, control, and eliminate occupational hazards to protect employee health. Furthermore, Kelun-Biotech conducts occupational health and safety audits for CROs to ensure that partners comply with occupational health standards.

In 2023, a total of 431 people at Kelun-Biotech participated in occupational health examinations, with 0 reported cases of occupational disease diagnosis. Furthermore, the compliance rate of annual occupational health hazard detection of Kelun-Biotech reached 100%, effectively safeguarding employees' occupational health.

Occupational Health Safeguards

In 2023, Kelun-Biotech developed the Instruction Manual for Use of Labor Protective Products to guide the standard selection and use of labor protective articles for post employees, and invited personnel from 3M to conduct training of mask and face shield fit testing in the factory area to enhance personnel's awareness of occupational protection.

Case **Kelun-Biotech conducted comprehensive emergency evacuation drills**

In December 2023, Kelun-Biotech and the Research Institute jointly conducted comprehensive emergency evacuation drills, attracting a total of 1,436 employees to participate. Through a combination of professional lectures and practical drills, the activity effectively raised employees' risk awareness, strengthened their emergency response capabilities in the face of sudden situations, and ensured the life safety and health of employees.

Comprehensive Emergency Evacuation Drills of Kelun-Biotech

Kelun-Biotech actively carries out occupational health and safety management work. During the reporting period, the company and the company's safety officers were respectively recognized by the Chengdu Medical City Management Committee in 2023 as "Advanced Enterprise" and "Advanced Worker" for safety production.

5. FOCUS ON ECOLOGY – CREATE A GREEN FUTURE

5.1. Environmental Management System

Management System

Kelun-Biotech strictly adheres to the Environmental Protection Law of the People's Republic of China as well as other laws and regulations, and formulates the Management Procedure for Environmental Protection, to ensure the smooth progress of the company's environmental protection work.

The company adheres to the principle of "prevention first, combined with control and treatment", establishes detailed management methods for pollutants such as wastewater, exhaust gas, solid waste, and noise generated during the operation process, clarifies the responsibilities of the EHS department in charge of the company's environmental management, and sets up a reward and punishment mechanism. In response to potential pollution accidents, the company has developed a comprehensive Emergency Response Plan for Environmental Pollution Accidents to effectively improve the management level in dealing with emergencies.

Basic Principles of Environmental Protection Management Procedures of Kelun-Biotech

- The director of the EHS department of the company is responsible for environmental protection work and reporting directly to the responsible persons of the company;
- Focus on the prevention and control of "three wastes" pollution, ensuring the funding, equipment, materials, and manpower for the "three wastes" treatment and comprehensive utilization projects;
- Establish regular inspection, maintenance, and post-maintenance acceptance procedures for environmental protection facilities and equipment;
- The company must include environmental protection work as one of the technical and economic indicators for assessment and evaluation;
- Anyone who violates the procedures and causes an accident must be held accountable according to the degree of hazard of the accident.

5.2. Addressing climate change

In the production and operating activities, Kelun-Biotech upholds the concept of green development, formulates the "Climatic Policy of Kelun-Biotech", strictly controls the company's greenhouse gas emissions, and advocates the participation of stakeholders to contribute to the fight against climate change.

Risk and Opportunity Assessment

We incorporate climate change into the company's decision-making considerations, and climate-related policies and performance are reviewed periodically by the Board of Directors to ensure that climate-related policies and initiatives are implemented and monitored. In addition, the company systematically identifies and comprehensively assesses potential risks and opportunities of climate change, and develops response measures for major risks to effectively prevent and respond to the impact of climate change on the company.

Climatic-Related Risks in Kelun-Biotech

Type	Climate-related risks	Risk examples	Potential impact	Response measures
Entity risk	Acute risk	Increased severity of extreme weather events such as typhoons and floods	○ Damage to property and assets, including buildings, infrastructure, engineering and testing equipment ○ Suppliers may fail to complete deliveries in a timely manner, resulting in business interruption ○ Negative impact on labor safety, management and planning	Establish a perfect emergency management scheme for extreme weather Reduce the use of energy-extensive equipment
	Chronic risk	Sea level rise	○ Damage to the facilities of the supply chain enterprises ○ Increased infrastructure costs in supply chain enterprises	
		Average temperature rise	○ Increased energy consumption and operating costs	
Transition Risk	Policy and legal risks	Existing requirements and regulations	○ Fine, business loss, business closure ○ In order to cater to the increasingly stringent policies, the company's costs have increased	Track relevant regulations and policies annually and compile greenhouse gas emissions data in order to respond in a timely manner when requested
	Technical risks	Transition cost of low carbon emission technology	○ Costs related to green technology research and development ○ Increased operating costs	Make mitigation and regulation of climate change as one of the priorities of relevant business departments and EHS departments
	Market risk	Change in customer behavior	○ Customers pay more attention to the carbon footprint of the supply chain, and demand to achieve the goal of carbon emission reduction in the supply chain ○ Order losses and reduced revenue due to insufficient disclosure of carbon neutralization targets and data	
		Uncertain market demand	○ Climate change leads to new diseases, and demand for drugs and other pharmaceutical products may increase	Make climate change a priority issue and communicate with stakeholders through channels such as ESG reports
		Increased raw material costs	○ Decreased quantity and quality of raw materials. Decrease in quantity leads to higher raw material costs, further increasing enterprise operating costs	
	Reputation risk	Increasing stakeholder concerns about negative feedback	○ Corporate stakeholders, including investors and customers, are increasingly concerned about sustainable development and climate change, and inadequate disclosure of corporate information will damage the company's reputation	

Climate-related Opportunities in Kelun-Biotech

Climate-related opportunities		Potential impact
Resource efficiency	Reduce energy use	○ Reduce the operating cost and enhance the company reputation
	Reduce the use of water resources	○ Reduce the operating cost of enterprises
Products and services	Shifting in customer preferences	○ Formulate environmental management strategy according to customer strategy and demand to enhance competitive advantage ○ As global climate change intensifies, customers are increasingly inclined to use environmentally friendly products/services

Greenhouse Gas Emission Reduction Targets

5% reduction in ranges 1 and 2 greenhouse gas emission density in 2030, with 2023 as the baseline

Greenhouse Gas Emission Reduction Actions

The company implements the low-carbon concept, creates the low-carbon economy, and is committed to reducing the adverse impact of the company's operations on the environment. We continue to strengthen energy management and reduce energy waste while adopting environmentally friendly equipment and more advanced technologies to improve energy utilization efficiency. The company also actively explores the introduction and use of renewable energy to reduce greenhouse gas emissions.

Greenhouse Gas Emissions of Kelun-Biotech in 2023

Total greenhouse gas emitted
19,903.34 tons (CO_2 equivalence)

Scope 1 greenhouse gas emitted
6,335.07 tons (CO_2 equivalence)

Scope 2 greenhouse gas emitted
13,568.27 tons (CO_2 equivalence)

Density of greenhouse gas emitted[1]
45.65 Tons (CO_2 equivalence)/person

[1] The density unit takes the annual average number of R&D and production core personnel as the denominator, with an average annual number of 436 R&D and production core personnel in 2023

5.3. Resource Management

Energy Saving

Energy Management System

In accordance with the Law of the People's Republic of China on Energy Saving and other laws and regulations, Kelun-Biotech sets the Equipment & Power Engineering Department as the Energy Management Department, formulates the "Energy Inspection System" to ensure the effective implementation of energy management.

From three aspects-improving hardware green management facilities and systems, refining energy-saving management procedures and implementing energy-saving measures-Kelun-Biotech continuously improves energy use efficiency in R&D and production operations, and promotes the realization of low-carbon management objectives.

Energy Management Measures for Kelun-Biotech

Perfecting Green Management Facilities and Systems of Hardware

1. The design and construction process of the plant strictly complies with the requirements of green buildings. The heat preservation (winter)/cold preservation (summer) performance of the building is improved through material and structural upgrading to reduce energy consumption.
2. Establish the operation facilities, equipment automation and frequency conversion control system, adjust the energy load level flexibly and improve the energy utilization efficiency.
3. Establish an annual comprehensive energy consumption analysis mechanism, and adopt advanced energy-saving technologies (such as HVAC heat pipe control) to reform high-energy consuming equipment to achieve the goal of energy saving and consumption reduction.

Refined Management Procedure for Energy Saving

1. Carry out energy saving and consumption reduction patrol work and implement monthly inspection and assessment, and timely correct and rectify problems such as continuous light.
2. Each department conducts energy inspection at least once a month, and the energy management department carries out irregular repeated or spot checks to timely feedback and rectify problems and archive files.
3. Carry out diversified energy-saving publicity and education to employees.

Implement Energy-saving Measures

1. Advanced energy-saving schemes in the industry were employed in the new construction and reconstruction projects and energy-saving materials, etc. were used.
2. Lighting system modification, including replacement of LED lamps, use of sound-controlled lamps in public areas, etc.
3. Through the CAV/VAV control system, the temperature and humidity of the purification work area can be controlled automatically according to the seasons and working hours.

Energy Management Objectives

with 2023 as the baseline

5% reduction of power consumption density in 2030

with 2023 as the baseline

5% reduction of natural gas consumption density in 2030

Case | **Kelun-Biotech's practice in energy-saving equipment selection and operating conditions optimization**

- **Energy-saving Technology and Energy-saving Water Chiller Unit Used in Biological Building**
  Kelun-Biotech pays attention to the full cycle management of energy and actively carries out energy saving and consumption reduction practices in the stages of HVAC system automatic control design, unit type selection and layout, pipeline design and construction. During the construction of the water chiller unit in the Biological Building, we select the energy-saving chiller with energy efficiency level 1, and adjust the unit load according to the requirements through the frequency conversion automatic control and the VAV/CAV automatic control system in the production area. The annual power saving can reach 680,000 kWh.
- **Selection of Energy-saving Boiler and Optimize Air-Fuel Ratio of Boiler to Realize Energy Saving and Consumption Reducing**
  By selecting high-efficiency and energy-saving boiler units, Kelun-Biotech optimizes the operating conditions of high-energy-consuming equipment and significantly improves energy efficiency. We try to gradually improve the air-fuel ratio of the boiler, determine the optimal input-output equilibrium point of operating conditions, complete the modification of energy-consuming equipment, so that the annual natural gas saving amount reaches 246,281 Nm^3, achieving a leading level in natural gas consumption per ton of steam in the industry.

Energy Performance of Kelun-Biotech in 2023[2]

Quantity of purchased power consumed
23,791,455 kilowatt hours

Density of purchased power consumed
54,567.56 kilowatt hours/person

Quantity of diesel consumed
1,293 liters

Density of diesel consumed
2.97 liters/person

Quantity of natural gas consumed
3,198,447 cubic meters

Density of natural gas consumed
7,335.89 cubic meters/person

[2] The density unit takes the annual average number of R&D and production core personnel as the denominator, with an average annual number of 436 R&D and production core personnel in 2023

Water Conservation

Water Resource Management System

Based on the Management Procedure for Environmental Protection, Kelun-Biotech continuously improves water resources management. As a company in the pharmaceutical industry, we focus on the development and utilization of water cycle technology in high water consumption links such as process water and process cooling water, increase the water reuse, improve the reuse rate, and reduce waste water discharge through source reduction and resource recycling.

Objectives of Water Resources Management

with 2023 as the baseline

10% reduction in water density in 2030

Water Resource Recycling

With the continuous increase in water consumption for social production and life, it is particularly important to make rational use and protection of water resources. Kelun-Biotech improves the amount of recycled water and the reuse rate of water resources through reclaimed water reuse, water resource recovery, and cascade utilization, achieving sustainable use of water resources.

Case | **Kelun-Biotech's sustainable practice in water resource recycling**

Kelun-Biotech has extensive practice in water recycling modification, such as changing the water for 3 TCU and 1 vacuum pump in the synthesis workshop from tap water to recycled cooling water, saving 15,000 m^3/year of water. And replacing tap water used in outdoor steam condensate cooling pool with primary concentrated water of purified water by pipeline modification, saving about 20,000 m^3/year of water. And also reforming the purified water pretreatment system, saving about 30,000 m^3/year.

Water Resource Management Performance of Kelun-Biotech in 2023

Quantity of tap water	Quantity of circulating water	Water density[3]
302,765 cubic meters	**34,560,000** cubic meters	**694.42** CUBIC meters/person

[3] The density unit takes the annual average number of R&D and production core personnel as the denominator, with an average annual number of 436 R&D and production core personnel in 2023

5.4. Emission Management

Kelun-Biotech strictly adheres to the local laws, regulations and emission standards of the place where it operates, such as the Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Comprehensive Emission Standards of Air Pollutants, Discharge Standard of Water Pollutants for Bioengineering Pharmaceutical Industry, etc., to establish a comprehensive emission management system, minimize adverse environmental impacts, and achieve green and sustainable development of Kelun-Biotech.

Air Pollutant Emission

We strictly implement the requirements of "Comprehensive Emission Standards of Air Pollutants" and "Emission Standards for Air Pollutants in Pharmaceutical Industry" to ensure that all types of air pollutants meet the standards. Our company has installed efficient filtration systems in the production workshops, and the exhaust gas was treated and discharged by a combination of technologies including spray washing, activated carbon adsorption and photooxidation treatment.

The company pays great attention to the daily operation management, maintenance, and inspection of the waste gas treatment facilities, and regularly contacts the qualified environmental monitoring units to carry out external monitoring of waste gas. The 2023 waste gas emission monitoring results of Kelun-Biotech meet the national emission standards, and the concentration of treated waste gas pollutants is far below the standard emission limits.

Air Pollutant Emission of Kelun-Biotech in 2023

Total exhaust emitted	Nitrogen oxides	Volatile organic pollutants	Particulate matter
39,948.85 10,000 cubic meters	**0.78** tons	**0.81** tons	**1.24** tons

Wastewater Discharge

Through recirculating water renovation, Kelun-Biotech reduces the amount of waste water produced in the production process, and strictly enforces the requirements of the discharge agreement signed with the park sewage treatment plant. After pretreatment process, the production wastewater and the experimental wastewater enter the sewage treatment station in the plant area together with the domestic sewage, and discharge into the park sewage treatment plant after reaching the standard.

In June 2023, Kelun-Biotech renovated the secondary sedimentation tanks at the sewage treatment station within the factory area, adding facilities such as baffles within the cofferdam, which solved the problem of floating sludge in the effluent, further improved the water quality of the effluent, and reduced the impact on the ecological environment.

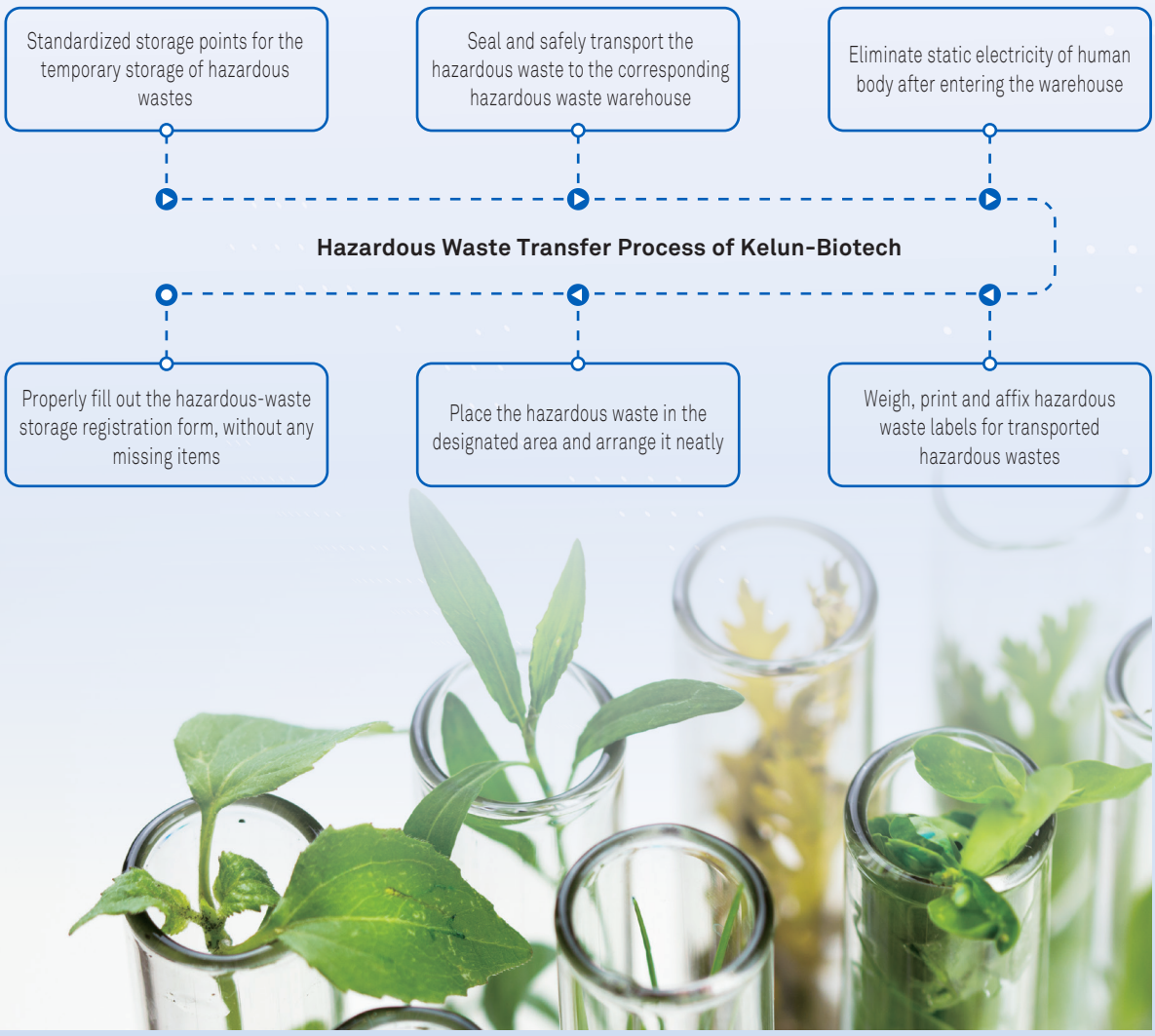
Wastewater Discharge of Kelun-Biotech in 2023

Total wastewater discharged	COD discharged
102,003 tons	**5.15** tons

Waste Management

Kelun-Biotech strictly follows relevant laws and regulations such as the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, and formulates the Management System for Waste Collection and Waste Storage that specifies the full process management requirements for the collection, storage, transportation, and disposal of general and hazardous waste, reducing the impact on the environment.

Kelun-Biotech attaches importance to the standardized disposal of wastes, and timely clears and transports harmless wastes through the sanitation department and waste recycling company. The company strictly prohibits the act of mixing general wastes and hazardous wastes, and has made clear regulations on the collection and storage of hazardous wastes, assigning dedicated personnel to be responsible for the on-site management of the storage warehouse, and conducting regular training on the standardized management of hazardous wastes to ensure that the collection, storage and transfer of hazardous wastes strictly follow the relevant procedures.



Case | **Hazardous-waste-leakage emergency drill of Kelun-Biotech**

In 2023, the EHS department of Kelun-Biotech organized emergency drills for 18 employees responsible for the transportation of hazardous wastes, focusing on hazardous waste response. Through practical exercises, the effectiveness and operability of the company's emergency response to sudden hazardous waste incidents are verified, enhancing the emergency response team's ability to respond and handle emergencies when accidents occur.

Kelun-Biotech Organized Emergency Drills for Hazardous Waste Leakage

Case | **Kelun-Biotech's standardized management training for hazardous wastes**

In 2023, Kelun-Biotech conducted standardized management training for 1,255 employees from departments that generate hazardous wastes. Through the explanations of professionals, participants gained an in-depth understanding of the generation, collection, storage, and ledger management of hazardous waste, improving their ability to manage hazardous waste, strengthening their environmental protection and safety awareness, and effectively preventing and controlling the harm that hazardous waste might pose to human health and the environment.

Kelun-Biotech Organized Standardized Management Training for Hazardous Wastes

Waste Management Objectives

5% reduction of hazardous waste production density in 2030, with 2023 as the baseline

Kelun-Biotech will gradually implement waste reduction measures to reduce the generation of wastes from the source by strengthening material conservation publicity and training, and continuously improving the production process to reduce material consumption. The company also continues to improve the level of fine management, strengthens management of the classification of wastes to avoid the mixing of common wastes and hazardous wastes, and reduce the production of additional hazardous wastes.

Waste Generation of Kelun-Biotech in 2023[4]

Quantity of hazardous wastes generated **239.47** tons

Density of hazardous wastes generated **0.55** tons/person

Quantity of non-hazardous wastes generated **676.01** tons

Density of non-hazardous wastes generated **1.55** tons/person

Total recovery of non-hazardous wastes **8.28** tons

[4] The density unit takes the annual average number of R&D and production core personnel as the denominator, with an average annual number of 436 R&D and production core personnel in 2023

APPENDIX I: KEY PERFORMANCE OF 2023

Category	Indicator	Unit	Performance of 2023
Performance statistics at environmental level			
Atmospheric pollutants	Total exhaust emitted	10,000 cubic meters	39,948.85
	Nitrogen oxides	Ton	0.78
	Volatile organic pollutants	Ton	0.81
	Particulate matter	Ton	1.24
Wastewater	Total wastewater discharged	Ton	102,003
	COD discharged	Ton	5.15
Greenhouse gases	Total greenhouse gas emitted	Ton (CO_2 equivalence)	19,903.34
	Scope 1 greenhouse gas emitted	Ton (CO_2 equivalence)	6,335.07
	Scope 2 greenhouse gas emitted	Ton (CO_2 equivalence)	13,568.27
	Density of greenhouse gas emitted	Ton (CO_2 equivalence)/ person	45.65
Wastes	Quantity of hazardous wastes generated	Ton	239.47
	Density of hazardous wastes generated	Tons/person	0.55
	Quantity of non-hazardous wastes generated	Ton	676.01
	Density of non-hazardous wastes generated	Tons/person	1.55
	Total recovery of non-hazardous wastes	Ton	8.28
Energy	Quantity of purchased power consumed	Kilowatt hour	23,791,455
	Density of purchased power consumed	Kilowatt hours/person	54,567.56
	Quantity of diesel consumed	Liter	1,293
	Density of diesel consumed	Liters/person	2.97
	Quantity of natural gas consumed	Cubic meter	3,198,447
	Density of natural gas consumed	Cubic meter/person	7,335.89
Water resources	Quantity of tap water	Cubic meter	302,765
	Quantity of circulating water	Cubic meter	34,560,000
	Water density	Cubic meter/person	694.42
Packaging materials	Total quantity of materials	Ton	18.16

Category	Indicator		Unit	Performance of 2023
Performance statistics at social level				
Employees	By type of employment	Full-time	Person	1,415
		Part-time	Person	62
		Outsourcing	Person	24
	By gender (Full-time employees)	Male	Person	563
		Female	Person	852
	By age (Full-time employees)	30 years old or younger	Person	701
		31 to 49 years old	Person	679
		50 years of age or older	Person	35
	By region (Full-time employees)	Sichuan Province	Person	1,104
		Other provinces and cities in China (other than Sichuan Province)	Person	307
		Overseas	Person	4
Employee turnover rate[5]	By gender (Full-time employees)	Male	%	16.22
		Female	%	15.06
	By age (Full-time employees)	30 years old or younger	%	16.86
		31 to 49 years old	%	14.48
		50 years of age or older	%	8.82
	By region (Full-time employees)	Sichuan Province	%	15.1
		Other provinces and cities in China (other than Sichuan Province)	%	16.9
		Overseas	%	0
Employee health and safety	Number of deaths due to work in 2021		Person	0
	Number of deaths due to work in 2022		Person	0
	Number of deaths due to work in 2023		Person	0
	Percentage of deaths due to work in 2021		%	0
	Percentage of deaths due to work in 2022		%	0
	Percentage of deaths due to work in 2023		%	0
	Number of working days lost due to work injury		Day	0

[5] Turnover rate = Number of resigned employees under each category/Total number of employees under each category * 100%

Category	Indicator		Unit	Performance of 2023
Proportion of employees trained	All employees		%	100
	By gender	Male	%	100
		Female	%	100
	By employee category	General staff	%	100
		Middle management	%	100
		Senior management	%	100
Average duration of training	All employees		Hours/person	81.43
	By gender	Male	Hours/person	81.37
		Female	Hours/person	81.47
	By employee category	General staff	Hours/person	81.53
		Middle management	Hours/person	80.31
		Senior management	Hours/person	81.71
Supplier	By region	Domestic	Nr.	293
		Overseas	Nr.	105
Intellectual property protection	Cumulative number of patents applied		Nr.	504
	Cumulative number of patents authorized		Nr.	184
	Cumulative number of trademarks applied		Nr.	138
	Cumulative number of trademarks authorized		Nr.	133
Anti-corruption	Cases of embezzlement litigation closed		Nr.	0
Anti-corruption training	By employee category	General staff	Attendance	2,691
		Middle management	Attendance	840
		Senior management	Attendance	42

APPENDIX II: CONTENT INDEX OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE STOCK EXCHANGE OF HONG KONG

Aspect	Disclosure Requirements	Report Index
A1	**Emissions:** General disclosure Regarding emissions of waste gases and greenhouse gases, pollution discharge into water and land, and the generation of hazardous and non-hazardous wastes: (a) Policy; and (b) compliance with relevant laws and regulations having a significant impact on the issuer. Note: Emissions of waste gases include nitrogen oxides, sulfur oxides, and other pollutants regulated by national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride. Hazardous waste refers to that defined by national regulations.	5.4. Emission management
KPI A1.1	Types of emissions and relevant emission data	5.4. Emission management
KPI A1.2	Direct (Scope 1) and indirect energy-related (Scope 2) greenhouse gas emission quantity (calculated in tons) and (if applicable) density (calculated per unit of production per facility).	5.2. Responding to climate change
KPI A1.3	The total quantity of hazardous waste generated (calculated in tons) and (if applicable) density (calculated per unit of production per facility).	5.4. Emission management
KPI A1.4	The total quantity of non-hazardous waste generated (calculated in tons) and (if applicable) density (calculated per unit of production per facility).	5.4. Emission management
KPI A1.5	Describe the emission reduction targets set and the steps taken to achieve these targets.	5.2. Responding to climate change 5.4 Emission Management
KPI A	Describe the methods for handling hazardous and non-hazardous waste, and describe the waste reduction targets set and the steps taken to achieve these targets.	5.4 Emission Management

Aspect	Disclosure Requirements	Report Index
A2	**Resource use:** General disclosure Policies for the effective use of resources (including energy, water, and other raw materials). Note: Resources may be used for production, storage, transportation, buildings, electronic equipment, etc.	5.3 Resource Management
KPI A2.1	Total direct and/or indirect energy-related consumption quantity (calculated in thousands of kilowatt-hours) and density (calculated per unit of production per facility) (by type).	5.3 Resource Management
KPI A2.2	Total water consumption quantity and density (calculated per unit of production per facility).	5.3 Resource Management
KPI A2.3	Describe the energy efficiency targets set and the steps taken to achieve these targets.	5.3 Resource Management
KPI A2.4	Describe any potential issues with obtaining suitable water sources, as well as the water efficiency targets set and the steps taken to achieve these targets.	5.3 Resource Management
KPI A2.5	The total quantity of packaging materials used for finished products (calculated in tons) and (if applicable) the quantity per production unit.	Appendix I: Key Performance of 2023
A3	**Environment and natural resources:** General disclosure Policies to reduce the issuer's significant impact on the environment and natural resources.	5.3 Resource Management
KPI A3.1	Describe the significant impacts of business activities on the environment and natural resources, and the actions taken to manage these impacts.	5.3 Resource Management
A4	**Climate change:** General disclosure Policies for identifying and addressing significant climate-related issues that have affected and may affect the issuer.	5.2 Responding to climate change
KPI A4.1	Describe the significant climate-related issues that have affected and may affect the issuer, and the response actions.	5.2 Responding to climate change

Aspect	Disclosure Requirements	Report Index
B1	**Employment:** General disclosure Regarding compensation and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversity, anti-discrimination, and other treatment and benefits: (a) Policy; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	Diversity, Equality and Inclusion
KPI B1.1	The total number of employees by gender, employment type (such as full-time or part-time), age, and region.	Diversity, Equality and Inclusion
KPI B1.2	Employee turnover rates by gender, age, and region.	Appendix I: Key Performance of 2023
B2	**Health and safety:** General disclosure Regarding the provision of a safe working environment and the protection of employees from occupational hazards: (a) Policy; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	4.4 Occupational health and safety
KPI B2.1	The number and rate of fatalities due to work-related accidents in the past three years (including the reporting year).	Appendix I: Key Performance of 2023
KPI B2.2	Number of working days lost due to work injury.	Appendix I: Key Performance of 2023
KPI B2.3	Describe the occupational health and safety measures adopted, and the related implementation and monitoring methods.	4.4 Occupational health and safety

Aspect	Disclosure Requirements	Report Index
B3	**Development and training:** General disclosure Policies on enhancing employees knowledge and skills to perform their job responsibilities. Describe training activities. Note: Training refers to vocational training, which may include courses paid for by the employer, both internal and external.	4.3 Employee Training and Development
KPI B3.1	The percentage of trained employees by gender and employee category (such as senior management, middle management, etc.).	Appendix I: Key Performance of 2023
KPI B3.2	The average number of training hours completed per employee, broken down by gender and employee category.	Appendix I: Key Performance of 2023
B4	**Labor code:** General disclosure Regarding the prevention of child labor or forced labor: (a) Policy; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	4.1 Diversity, Equality and Inclusion
KPI B4.1	Describe measures to review recruitment practices to avoid child labor and forced labor.	4.1 Diversity, Equality and Inclusion
KPI B4.2	Describe the steps taken to eliminate the situation when violations are discovered.	4.1 Diversity, Equality and Inclusion
B5	**Supply chain management:** General disclosure Policies for managing environmental and social risks in the supply chain.	2.2 Supply Chain Management
KPI B5.1	Number of suppliers by region.	2.2 Supply Chain Management
KPI B5.2	Describe the practices for hiring suppliers, the number of suppliers to whom these practices are applied, and the related implementation and monitoring methods.	2.2 Supply Chain Management
KPI B5.3	Describe the practices for identifying environmental and social risks at each stage of the supply chain, and the related implementation and monitoring methods.	2.2 Supply Chain Management
KPI B5.4	Describe the practices for encouraging the use of environmentally friendly products and services when selecting suppliers, and the related implementation and monitoring methods.	2.2 Supply Chain Management

Aspect	Disclosure Requirements	Report Index
B6	**Product responsibility:** Regarding the health and safety of the products and services provided, advertising, labeling and privacy issues, and remedial measures: (a) Policy; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	2.1 Quality Responsibility
KPI B6.1	The percentage of total sold or delivered products that need to be recalled for safety and health reasons.	Not applicable
KPI B6.2	The number of complaints received about products and services and the response methods.	Not applicable
KPI B6.3	Describe the practices related to maintaining and protecting intellectual property rights.	1.1 Compliance and Business Ethics
KPI B6.4	Describe the quality verification process and product recovery procedure.	2.1 Quality Responsibility
KPI B6.5	Describe the consumer data protection and privacy policies, and the related implementation and monitoring methods.	1.2 Information Security and Privacy Protection
B7	**Anti-corruption:** General disclosure Regarding the prevention of bribery, extortion, fraud, and money laundering: (a) Policy; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	1.1 Compliance and Business Ethics
KPI B7.1	The number and outcomes of corruption lawsuits filed and concluded against the issuer or its employees during the reporting period.	1.1 Compliance and Business Ethics
KPI B7.2	Describe the preventive measures and reporting procedures, and the related implementation and monitoring methods.	1.1 Compliance and Business Ethics
KPI B7.3	Describe the anti-corruption training provided to directors and employees.	1.1 Compliance and Business Ethics
B8	**Community investment:** Policies related to engaging with the community to understand the needs of the communities where operations are located and to ensure that business activities consider community interests.	3.3 Social Co-construction
KPI B8.1	Focused areas of contribution (such as education, environmental matters, labor needs, health, culture, sports).	3.3 Social Co-construction
KPI B8.2	Resources utilized in the focus areas (such as money or time).	3.3 Social Co-construction

Independent auditor's report to the shareholders of
Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of 四川科倫博泰生物醫藥股份有限公司(Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd., the "Company") and its subsidiaries (together, the "Group") set out on pages 168 to 238, which comprises the consolidated statement of financial position as at December 31, 2023, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes, comprising material accounting policy information and other explanatory 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 IFRS Accounting Standards issued by the International Accounting Standard Board (the "IASB") 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China and we have fulfilled our other ethical responsibilities in accordance with 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 judgment, was of most significance in our audit of the consolidated financial statements of the current period. The 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.

Recognition and measurement of research and development expenses

Refer to note 5(c) to the consolidated financial statements and the accounting policies on page 194.

The Key Audit Matter	How the matter was addressed in our audit
The Group incurred research and development ("R&D") expenses of RMB1,030,966,000 for R&D activities for the year ended December 31, 2023, mainly consisting of staff costs, trial and testing expenses and raw materials. We identified the recognition and measurement of R&D expenses as a key audit matter because of the significant amount incurred during the year and the inherent risk of R&D expenses not accurately recognized in the appropriate financial reporting period.	Our audit procedures to assess the recognition and measurement of R&D expenses included the following: • Obtaining an understanding of and testing the design and implementation and the operating effectiveness of the key internal controls related to the Group's R&D recognition and measurement process; • Evaluating the allocation and accrual of R&D related staff costs to the relevant R&D projects by checking to the labour contracts of relevant staffs, monthly payroll list and working time records maintained by the R&D department on a sample basis; • Inspecting contract application form, key terms set out in the R&D related trial and testing contracts and the completion status reports from the service providers, on a sample basis, to assess whether trial and testing expenses were recorded based on the respective contract terms or completion status and whether these costs were allocated to the R&D projects appropriately; • Obtaining external confirmations from trial and testing expense suppliers, on a sample basis, to confirm the trial and testing expenses incurred for the year ended December 31, 2023; For the unreturned confirmations, we have compared the trial and testing expenses recorded for the year to the R&D related trial and testing contracts and the completion status reports from the service providers;

Recognition and measurement of research and development expenses	
Refer to note 5(c) to the consolidated financial statements and the accounting policies on page 194.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• Inspecting, on a sample basis, raw materials delivery notes, invoices, materials application form to assess whether these costs were recorded accurately and allocated to the relevant R&D projects appropriately; and • Evaluating whether the R&D expenses were included in the appropriate period by comparing R&D costs recorded before and after the balance sheet date, on a sample basis, to relevant underlying documents such as materials application form, invoices and completion status reports from the service providers.

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 IFRS Accounting Standards issued by the IASB 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, in accordance with section 405 of the Hong Kong Companies Ordinance, 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 scepticism 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 25, 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2023
(Expressed in Renminbi ("RMB"))

	Note	2023 RMB'000	2022 RMB'000
Revenue	3	**1,540,493**	803,933
Cost of sales		**(781,308)**	(276,828)
Gross profit		**759,185**	527,105
Other net income/(expense)	4	**89,809**	(4,368)
Selling and distribution expenses		**(19,534)**	–
Administrative expenses		**(181,877)**	(95,303)
Research and development expenses		**(1,030,966)**	(845,984)
Loss from operations		**(383,383)**	(418,550)
Finance costs	5(a)	**(84,309)**	(148,814)
Loss before taxation	5	**(467,692)**	(567,364)
Income tax	6(a)	**(106,442)**	(48,735)
Loss for the year attributable to equity shareholders of the Company		**(574,134)**	(616,099)
Loss per share	10		
Basic and diluted		**(2.84)**	(5.74)

The notes on pages 175 to 238 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2023
(Expressed in RMB)

	Note	2023 RMB'000	2022 RMB'000
Loss for the year		**(574,134)**	(616,099)
Other comprehensive income for the year (after tax)	9		
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of an overseas subsidiary		**4,793**	13,988
Other comprehensive income for the year		**4,793**	13,988
Total comprehensive income for the year attributable to equity shareholders of the Company		**(569,341)**	(602,111)

The notes on pages 175 to 238 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in RMB)

	Note	As at December 31, 2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	11	**607,783**	530,349
Right-of-use assets	12	**84,950**	117,475
Intangible assets		**1,336**	3,179
Other non-current assets	15	**8,199**	9,826
		702,268	660,829
Current assets			
Inventories	16	**63,032**	52,636
Trade and other receivables	18	**214,761**	98,659
Amounts due from related parties	30(d)	**1,352**	61,800
Financial assets measured at fair value through profit or loss ("FVPL")	14(a)	**633,705**	–
Financial assets measured at amortized cost	14(b)	**325,870**	–
Restricted deposits	19(a)	**39,993**	26,261
Cash and cash equivalents	19(a)	**1,528,774**	92,960
		2,807,487	332,316
Current liabilities			
Trade and other payables	20	**523,477**	243,405
Amounts due to related parties	30(d)	**21,429**	206,908
Financial instruments issued to investors	23	**–**	580,021
Contract liabilities	17	**510,692**	163,976
Bank loans and other borrowings	21	**–**	2,890,787
Lease liabilities	22	**54,406**	82,264
		1,110,004	4,167,361
Net current assets/(liabilities)		**1,697,483**	(3,835,045)
Total assets less current liabilities		**2,399,751**	(3,174,216)

The notes on pages 175 to 238 form part of these financial statements.

	Note	As at December 31, 2023 RMB'000	2022 RMB'000
Non-current liabilities			
Lease liabilities	22	**5,513**	41,292
Deferred income	24	**64,741**	10,678
		70,254	51,970
NET ASSETS/(LIABILITIES)		**2,329,497**	(3,226,186)
CAPITAL AND RESERVES			
Share capital	27(c)	**219,196**	107,370
Reserves		**2,110,301**	(3,333,556)
TOTAL EQUITY/(DEFICIT)		**2,329,497**	(3,226,186)

Approved and authorized for issue by board of directors on March 25, 2024.

Ge Junyou
Executive Director

Zhou Zejian
Chief Financial Officer

The notes on pages 175 to 238 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023
(Expressed in RMB)

	Note	Share capital RMB'000	Capital reserves RMB'000	Exchange reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at January 1, 2022		107,370	128,066	(13,239)	(2,866,083)	(2,643,886)
Changes in equity for 2022						
Loss for the year		–	–	–	(616,099)	(616,099)
Exchange differences on translation of financial statements of an overseas subsidiary		–	–	13,988	–	13,988
Total comprehensive income		–	–	13,988	(616,099)	(602,111)
Equity-settled share-based payment	25(b)	–	19,811	–	–	19,811
Balance at December 31, 2022		107,370	147,877	749	(3,482,182)	(3,226,186)

The notes on pages 175 to 238 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023
(Expressed in RMB)

	Note	Share capital RMB'000	Capital reserves RMB'000	Exchange reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at January 1, 2023		107,370	147,877	749	(3,482,182)	(3,226,186)
Changes in equity for 2023						
Loss for the year		–	–	–	(574,134)	(574,134)
Exchange differences on translation of financial statements of an overseas subsidiary		–	–	4,793	–	4,793
Total comprehensive income		–	–	4,793	(574,134)	(569,341)
Issuance of new shares	27(c)	59,937	2,598,744	–	–	2,658,681
Issuance of ordinary shares by initial public offering and over-allotment, net of issuing costs	27(c)	25,813	1,336,861	–	–	1,362,674
Issuance of shares with preferential rights	23	26,076	1,297,399	–	–	1,323,475
Recognition of financial liabilities recognized for preferential rights issued to investors	23	–	(1,323,475)	–	–	(1,323,475)
Reclassification of financial liabilities recognized for preferential rights issued to investors to equity	23	–	1,980,323	–	–	1,980,323
Equity-settled share-based payment	25(b)	–	123,346	–	–	123,346
Balance at December 31, 2023		219,196	6,161,075	5,542	(4,056,316)	2,329,497

The notes on pages 175 to 238 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2023
(Expressed in RMB)

	Note	2023 RMB'000	2022 RMB'000
Operating activities			
Net cash generated from/(used in) operating activities	19(b)	**59,559**	(270,847)
Investing activities			
Payment for the purchase of property, plant and equipment		**(80,982)**	(33,659)
Proceeds from disposal of property, plant and equipment		**5**	6,329
Payment for intangible assets		**(1,268)**	(5,333)
Payment for investment in financial assets measured at FVPL	28(e)	**(2,060,000)**	(370,000)
Proceeds from redemption of financial assets measured at FVPL	28(e)	**1,436,828**	370,513
Payment for investment in financial assets measured at amortized cost		**(320,000)**	–
Net cash used in investing activities		**(1,025,417)**	(32,150)
Financing activities			
Proceeds from new bank loans	19(c)	**–**	115,000
Repayment of bank loans	19(c)	**(100,000)**	(45,000)
Proceeds from other borrowings from Sichuan Kelun Pharmaceutical Co., Ltd. ("Kelun Pharmaceutical")	30(c)	**–**	248,000
Repayment of other borrowings from Kelun Pharmaceutical	30(c)	**(294,040)**	–
Proceeds from issuance of new shares		**158,681**	–
Proceeds from issuance of shares with preferential rights	23	**1,323,475**	–
Proceeds from issuance of ordinary shares by initial public offering and over-allotment, net of issuing costs		**1,370,939**	–
Interest paid	19(c)	**(563)**	(2,893)
Capital element of lease rentals paid	19(c)	**(66,762)**	(1,621)
Interest element of lease rentals paid	19(c)	**(9,449)**	(34)
Net cash generated from financing activities		**2,382,281**	313,452
Net increase in cash and cash equivalents		**1,416,423**	10,455
Cash and cash equivalents at January 1	19(a)	**92,960**	81,793
Effect of foreign exchange rate changes		**19,391**	712
Cash and cash equivalents at December 31	19(a)	**1,528,774**	92,960

Significant financing activities not requiring the use of cash or cash equivalents:

		Year ended December 31,	
	Note	2023 RMB'000	2022 RMB'000
Settlement of other borrowings by issuing equity to Kelun Pharmaceutical	19(c)	**2,500,000**	–
Reclassification of financial liabilities recognized for preferential rights issued to investors to equity	19(c)	**1,980,323**	–
		4,480,323	–

The notes on pages 175 to 238 form part of these financial statements.

1 MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable IFRS Accounting Standards, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Material accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") are disclosed below.

The IASB has issued certain amendments to IFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2023 comprise the Group.

Items included in these consolidated financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency").

RMB, the United States dollars ("USD") and Hong Kong dollars ("HKD") are the functional currencies for the Company and Company's subsidiaries established in Mainland China, the United States and Hong Kong.

The consolidated financial statements are presented in RMB, rounded to nearest thousands, which is the presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial assets measured at fair value through profit or loss are stated at fair value as explained in note 1(e).

1 MATERIAL ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRS Accounting Standards that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The IASB has issued the following amendments to IFRS Accounting Standards that are first effective for the current accounting period of the Group:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements* and IFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

None of these amendments had a material effect on how the Group's results and financial position for the current or prior year have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

1 MATERIAL ACCOUNTING POLICIES (continued)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Other investments in securities

The Group's policies for investments in securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 28(e). These investments are subsequently accounted for as follows, depending on their classification.

1 MATERIAL ACCOUNTING POLICIES (continued)

(e) Other investments in securities (Continued)

(i) Non-equity investments

Non-equity investments are classified into one of the following measurement categories:

- amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Expected credit losses, interest income calculated using the effective interest method (see note 1(s)(ii)), foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

- fair value through other comprehensive income (FVOCI) - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses are recognized in profit or loss and computed in the same manner as if the financial asset was measured at amortized cost. The difference between the fair value and the amortized cost is recognized in other comprehensive income (OCI). When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- fair value through profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL, unless the equity investment is not held for trading purposes and on initial recognition the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in OCI.

Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. If such election is made for a particular investment, at the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings and not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income (see note 1(s)(iv)).

1 MATERIAL ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses (see note 1(i)(ii)).

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components).

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

– Buildings	25 years
– Machinery and equipment	10 years
– Furniture, fixtures and others	3 – 5 years
– Vehicles	5 – 8 years
– Leasehold improvements	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Construction in progress is stated at cost less impairment losses (see note 1(i)(ii)). Cost comprises the purchase costs of the asset and the related construction and installation costs.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation polices specified above.

No depreciation is provided in respect of construction in progress.

1 MATERIAL ACCOUNTING POLICIES (continued)

(g) Intangible assets (other than goodwill)

Expenditure on research activities is recognized in profit or loss as incurred. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the resulting asset. Otherwise, it is recognized in profit or loss as incurred. Capitalized development expenditure is subsequently measured at cost less accumulated amortization and any accumulated impairment losses.

Other intangible assets, including software, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses (see note 1(i)(ii)).

Expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, if any, and is generally recognized in profit or loss.

The estimate useful lives for the current and comparative periods are as follows:

– Software	2 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

1 MATERIAL ACCOUNTING POLICIES (continued)

(h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for leases that have a short lease term of 12 months or less, and leases of low-value items such as laptops and office furniture. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalize the lease on a lease-by-lease basis. If not capitalized, the associated lease payments are recognized in profit or loss on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is recognized using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability, and are charged to profit or loss as incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

1 MATERIAL ACCOUNTING POLICIES (continued)

(h) Leased assets (continued)

As a lessee (continued)

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognized the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognizes a loss allowance for expected credit losses (ECLs) on:

- financial assets measured at amortized cost (including cash and cash equivalents, trade receivables and other receivables);

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

The expected cash shortfalls are discounted using the following rates if the effect is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

1 MATERIAL ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and

- lifetime ECLs: these are the ECLs that result from all possible default events over the expected lives of the items to which the ECL model applies.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial instruments that are determined to have low credit risk at the reporting date; and

- other financial instruments for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

1 MATERIAL ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk (continued)

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the financial asset is 90 days past due.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in non-equity securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in OCI and accumulated in the fair value reserve (recycling) does not reduce the carrying amount of the financial asset in the statement of financial position (see note 1(e)(i)).

Credit-impaired financial assets

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

1 MATERIAL ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and other contract costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGU"s).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

1 MATERIAL ACCOUNTING POLICIES (continued)

(j) Inventories and other contract costs

(i) Inventories

Inventories are measured at the lower of cost and net realizable value as follows:

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalized as inventory (see note 1(j)(i)), property, plant and equipment (see note 1(f)) or intangible assets (see note 1(g)).

Incremental costs of obtaining a contract, e.g. sales commissions, are capitalized if the costs relate to revenue which will be recognized in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalized if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Otherwise, costs of fulfilling a contract, which are not capitalized as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalized contract costs are stated at cost less accumulated amortization and impairment losses. Amortization of capitalized contract costs is recognized in profit or loss when the revenue to which the asset relates is recognized (see note 1(s)(i)).

1 MATERIAL ACCOUNTING POLICIES (continued)

(k) Contract assets and contract liabilities

A contract asset is recognized when the Group recognizes revenue (see note 1(s)(i)) before being unconditionally entitled to the consideration under the terms in the contract. Contract assets are assessed for ECLs (see note 1(i)) and are reclassified to receivables when the right to the consideration becomes unconditional (see note 1(l)).

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see note 1(s)(i)). A contract liability is also recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such latter cases, a corresponding receivable is also recognized (see note 1(l)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(s)(ii)).

(l) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortized cost (see note 1(i)(i)).

Prepayments of the Group represent upfront cash payments made to contract research organizations ("CROs"), hospitals and suppliers for equipment.

Prepayments to CROs and hospitals, which are organizations that provide support to the pharmaceutical, biotechnology, and medical device industries in the form of research services outsourced on a contract basis, will be subsequently recorded as research and development expenses in accordance with the applicable performance requirements within one year or less and therefore are all classified as current assets.

Prepayments for equipment which are due for transfer to property, plant and equipment and therefore are classified as non-current assets.

1 MATERIAL ACCOUNTING POLICIES (continued)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, property pre-sale proceeds held by solicitors that are held for meeting short-term cash commitments, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs (see note 1(i)(i)).

(n) Trade and other payables

Trade and other payables are initially recognized at fair value. Subsequent to initial recognition, trade and other payables are stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(o) Shares issued

Shares issued are classified as equity if they bear discretionary dividends, do not contain any obligations to deliver cash or other financial assets and do not require settlement in a variable number of the Group's equity instruments. Discretionary dividends thereon are recognized as equity distributions on approval by the Company's shareholders.

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

(p) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequently, these borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with note 1(v).

1 MATERIAL ACCOUNTING POLICIES (continued)

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as related service is provided.

(ii) Share-based payments

For those shares granted before the initial public offering ("IPO"), the fair value of shares at grant date is measured with reference to the price per share in the latest equity financing transaction, taking into account the terms and conditions upon which the share-based payment awards were granted. For those shares granted after the IPO, the fair value of shares at grant date is measured with reference to the closing share marketing price of that day. The amount is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service conditions at the vesting date.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring.

(r) Income tax

Income tax expense comprises current tax and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

1 MATERIAL ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;
- temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill; and
- those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organization for Economic Co-operation and Development.

The Group recognized deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

1 MATERIAL ACCOUNTING POLICIES (continued)

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from contracts with customers

(a) Revenue from license and collaboration agreements

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

(b) Revenue from provision of research and development services

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

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

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

1 MATERIAL ACCOUNTING POLICIES (continued)

(s) Revenue and other income (continued)

(ii) Interest income

Interest income is recognized using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(iii) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(iv) Dividends

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

1 MATERIAL ACCOUNTING POLICIES (continued)

(t) Translation of foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognized in OCI:

– an investment in equity securities designated as at FVOCI (except on impairment, in which case foreign currency differences that have been recognized in OCI are reclassified to profit or loss).

The assets and liabilities of foreign operations are translated into RMB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into RMB at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in OCI and accumulated in the exchange reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the NCI shall be derecognized, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

1 MATERIAL ACCOUNTING POLICIES (continued)

(u) Research and development expenses

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

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

1 MATERIAL ACCOUNTING POLICIES (continued)

(w) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies: (continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgments and estimations used in preparation of the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 28 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of significant estimation uncertainty are as follows:

(a) Research and development expenses

Development expenses incurred on the Group's pipelines are capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development.

Development expenses which do not meet these criteria are expensed when incurred. Management will assess the progress of each of the research and development projects and determine the criteria met for capitalization. During the reporting period, the Group's development expenditures incurred did not meet these capitalization principles for any products and were expensed as incurred.

(b) Recognition of deferred tax assets

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

(c) Depreciation

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

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the researching and developing service of innovative drugs, manufacturing and commercialization of novel drugs.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major service lines is as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Revenue from license and collaboration agreements	**1,531,699**	785,902
Revenue from provision of research and development service	**8,794**	18,031
	1,540,493	803,933

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Disaggregated by timing of revenue recognition		
Point in time	**814,568**	420,919
Over time	**725,925**	383,014
	1,540,493	803,933

The Group's customer base includes one customer with whom transactions have exceeded 10% of the Group's revenues. In 2023 revenues from this customer amounted to approximately RMB1,528,222,000 (2022: RMB730,037,000). Details of concentrations of credit risk arising from this customer is set out in note 28(a).

3 REVENUE AND SEGMENT REPORTING (continued)

(a) Revenue (continued)

(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date.

As at December 31, 2023, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB2,479,312,000 (2022: RMB892,444,000), which is expected to occur over the next 12 to 57 months (2022: next 12 to 15 months).

The above amount does not include any amounts of milestone bonuses that the Group may earn in the future by meeting the conditions set out in the Group's existing contracts with customers, unless at the reporting date it is highly probable that the Group will satisfy the conditions for earning those bonuses.

(b) Segment reporting

(i) Segment information

The Group manages its businesses as a whole by the most senior executive management for the purposes of resource allocation and performance assessment. The Group's chief operating decision maker is the chief executive officer of the Group who reviews the Group's consolidated results of operations in assessing performance of and making decisions about allocations to this segment.

Accordingly, no reportable segment information is presented.

(ii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, right-of-use assets, intangible assets and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the customers are registered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, right-of-use assets and the location of the operation to which they are allocated, in the case of intangible assets and other non-current assets.

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(ii) Geographic information (continued)

Revenues from external customers

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
The PRC (Place of domicile)	**7,544**	56,488
The United States of America (the "USA")	**1,528,222**	730,037
Other countries	**4,727**	17,408
	1,540,493	803,933

Non-current assets

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
The PRC	**701,931**	660,310
The USA	**337**	519
	702,268	660,829

4 OTHER NET INCOME/(EXPENSE)

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Interest income from bank deposits	**39,316**	1,417
Interest income on financial assets measured at amortized cost	**5,870**	–
Net foreign exchange gains/(losses)	**16,085**	(31,944)
Government grants	**20,578**	20,254
Net (loss)/gain on disposal of property, plant and equipment	**(1,488)**	5,418
Net realized and unrealized gain on financial assets measured at FVPL	**10,533**	513
Others	**(1,085)**	(26)
	89,809	(4,368)

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Interest expenses on bank loans	**563**	2,893
Interest expenses on other borrowings from Kelun Pharmaceutical	**3,253**	108,301
Interest expenses on financial instruments issued to investors (note 23)	**76,827**	40,943
Interest expenses on lease liabilities	**3,941**	5,605
	84,584	157,742
Less: interest expenses capitalized into construction in progress (note)	**(275)**	(8,928)
	84,309	148,814

Note: The borrowing costs have been capitalized at a rate of 4.35% per annum (2022: 4.35%).

(b) Staff costs

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Salaries, wages, bonuses and other benefits	**425,828**	360,001
Contributions to defined contribution retirement plan	**17,567**	16,789
Equity-settled share-based payment expenses (note 25(b))	**123,346**	19,811
	566,741	396,601

Staff costs includes remuneration of directors, supervisors and senior management (note 7 and note 30(a)).

Pursuant to the relevant labor rules and regulations in the PRC, the Company and its subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organized by the local government authorities whereby the Company and its subsidiaries in the PRC are required to make contributions to the Schemes based on certain percentages of the eligible employee's salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

The Group has no other material obligation for payment of other retirement benefits beyond the above contributions.

5 LOSS BEFORE TAXATION (continued)

(c) Other items

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Amortization cost of intangible assets	**3,111**	2,640
Depreciation charge		
– property, plant and equipment (note 11)	**30,805**	23,328
– right-of-use assets (note 12)	**41,160**	41,396
Auditors' remuneration		
– audit services	**2,240**	504
– other services**	**4,060**	1,117
Listing expenses	**27,346**	9,288
Research and development expenses*	**1,030,966**	845,984
Cost of sales#	**781,308**	276,828

* Research and development expenses includes RMB361,769,000 (2022: RMB316,042,000) relating to staff costs and depreciation and amortization expenses, which are also included in the respective total amounts disclosed separately above or in the note 5(b) for each of these types of expenses.

\# Cost of sales includes RMB122,903,000 (2022: RMB79,163,000) relating to staff costs and depreciation and amortization expenses, which are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

** Other services include RMB2,040,000 (2022: RMB590,000) which is also included in the listing expenses disclosed separately above.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Current tax		
Provision for the year		
– The PRC Corporate Income Tax	**–**	–
– United States Withholding Tax	**106,442**	48,735
	106,442	48,735

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(a) Taxation in the consolidated statement of profit or loss represents: (continued)

(i) PRC Corporate Income Tax

Effective from January 1, 2008, the PRC statutory income tax rate is 25% under the PRC Corporate Income Tax Law. The Group's subsidiaries in the PRC are subject to PRC income tax at 25% unless otherwise specified.

According to the PRC Corporate Income Tax Law and its relevant regulations, entities that qualified as high-technology enterprise are entitled to a preferential income tax rate of 15%. The Company obtained its certificate of high-technology enterprise on December 3, 2020 and October 16, 2023 respectively and is entitled to preferential income tax of 15% from 2020 to 2025.

(ii) Hong Kong Profit Tax

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: not applicable) of the estimated assessable profits for the year. There were no assessable profits generating from the subsidiary incorporated in Hong Kong of the Group during the year ended December 31, 2023.

(iii) United States Withholding Tax

Pursuant to US Income Tax laws and regulations and the agreement between the government of the People's Republic of China and the USA for avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income (中華人民共和國政府和美利堅合眾國政府關於對所得避免雙重徵税和防止偷漏税的協定), a 10% US federal withholding tax is charged on royalties paid pursuant to license and collaboration agreements entered between the Company and a US company.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Loss before taxation	**(467,692)**	(567,364)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	**(116,456)**	(140,221)
Effect of preferential income tax rates	**45,505**	52,570
Tax effect of non-deductible expenses	**102**	15,724
Tax effect of unused tax losses not recognized	**59,325**	65,786
Tax effect of interest expenses arising from financial instrument issued to investors	**11,524**	6,141
Withholding tax	**106,442**	48,735
Actual tax expense	**106,442**	48,735

7 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended December 31, 2023					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payments RMB'000 (Note)	Total RMB'000
Executive Directors						
Mr. Ge Junyou (葛均友)	–	2,563	960	42	14,353	17,918
Mr. Wang Jingyi (王晶翼)	–	2,484	–	148	–	2,632
Non-executive Director						
Mr. Liu Gexin (劉革新)	–	–	–	–	–	–
Mr. Liu Sichuan (劉思川)	–	–	–	–	–	–
Mr. Feng Hao (馮昊)	–	–	–	–	1,456	1,456
Mr. Li Dongfang (李東方)	–	–	–	–	–	–
Mr. Zeng Xuebo (曾學波)	–	–	–	–	–	–
Independent Non-executive Director						
Mr. Zheng Qiang (鄭強) (appointed in February 2023)	142	–	–	–	–	142
Mr. Tu Wenwei (涂文偉) (appointed in February 2023)	142	–	–	–	–	142
Ms. Jin Jinping (金錦萍) (appointed in February 2023)	142	–	–	–	–	142
Ms. Li Yuedong (李越冬) (appointed in February 2023)	142	–	–	–	–	142
Supervisors						
Ms. Song Hongmei (宋宏梅)	–	1,559	1,141	8	206	2,914
Mr. Wan Peng (萬鵬)	–	–	–	–	–	–
Mr. Lai Degui (賴德貴)	–	–	–	–	1,456	1,456
Ms. Qing Yan (卿燕)	–	1,479	660	8	792	2,939
Ms. Yang Qiuyan (楊秋豔)	–	929	406	8	760	2,103
Ms. Liao Yihong (廖益虹)	–	–	–	–	1,870	1,870
	568	9,014	3,167	214	20,893	33,856

7 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

	Year ended December 31, 2022					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payments RMB'000 (Note)	Total RMB'000
Executive Directors						
Mr. Ge Junyou (葛均友) (appointed in February 2022)	–	2,004	800	31	380	3,215
Mr. Wang Jingyi (王晶翼)	–	3,512	578	154	(83)	4,161
Non-executive Director						
Mr. Liu Gexin (劉革新)	–	–	–	–	–	–
Mr. Liu Sichuan (劉思川)	–	–	–	–	–	–
Mr. Feng Hao (馮昊)	–	–	–	–	136	136
Mr. Li Dongfang (李東方) (appointed in February 2022)	–	–	–	–	–	–
Mr. Chen Deguang (陳得光) (resigned in February 2022)	–	272	80	4	74	430
Mr. Zeng Xuebo (曾學波) (appointed in July 2022)	–	–	–	–	–	–
Mr. Zhou Zejian (周澤劍) (appointed in February 2022 and resigned in July 2022)	–	–	–	–	–	–
Supervisors						
Ms. Song Hongmei (宋宏梅)	–	1,495	420	8	206	2,129
Mr. Wan Peng (萬鵬)	–	–	–	–	–	–
Mr. Lai Degui (賴德貴)	–	–	–	–	136	136
Ms. Qing Yan (卿燕) (appointed in March 2022)	–	1,017	312	6	122	1,457
Ms. Yang Qiuyan (楊秋豔) (appointed in March 2022)	–	686	200	6	97	989
Ms. Liao Yihong (廖益虹) (appointed in February 2022)	–	–	–	–	–	–
	–	8,986	2,390	209	1,068	12,653

Note: These represent the estimated value of restricted share units granted to the directors and supervisors under the Company's restricted share unit scheme. The value of these restricted share units is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(q) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting. The details of share-based payment, including the principal terms and number of options granted, are disclosed in note 25.

7 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

During the years ended December 31, 2022 and 2023, no emoluments was paid by the Group to the directors, supervisors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. No director or supervisor has waived for agreed to waive any emoluments during the year.

During the years ended December 31, 2022 and 2023, Mr. Liu Gexin, Mr. Liu Sichuan and Mr. Wan Peng were not paid directly by the Group but received emoluments from the Group's holding company, in respect of their services to the larger group which includes the Group. No apportionment has been made as the qualifying services provided by them to the Group are incidental to their responsibilities to the larger group.

Dr. Zheng Qiang (鄭強), Dr. Tu Wenwei (涂文偉), Dr. Li Yuedong (李越冬) and Dr. Jin Jinping (金錦萍) were appointed as independent non-executive Directors of the Company on February 15, 2023 with effect from July 11, 2023, the Listing Date of the Company.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2022: one) is director whose emoluments is disclosed in note 7. The aggregate emoluments in respect of the other four (2022: four) individuals are as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Salaries and other emoluments	**12,357**	10,682
Discretionary bonuses	**4,997**	3,137
Share-based payments	**28,444**	15,896
Retirement scheme contributions	**510**	443
	46,308	30,158

The emoluments of the above individuals with the highest emoluments are within the following bands:

	Year ended December 31,	
	2023	2022
	Number of Individuals	Number of Individuals
HKD4,500,001 – HKD5,000,000	**–**	1
HKD7,000,001 – HKD7,500,000	**–**	1
HKD8,000,001 – HKD8,500,000	**1**	1
HKD12,500,001 – HKD13,000,000	**1**	–
HKD14,500,001 – HKD15,000,000	**1**	–
HKD15,000,001 – HKD15,500,000	**–**	1
HKD15,500,001 – HKD16,000,000	**1**	–

9 OTHER COMPREHENSIVE INCOME

	Year ended December 31,					
	2023			2022		
	Before-tax amount RMB'000	**Tax expense RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax expense RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation of financial statements of an overseas subsidiary	**4,793**	**–**	**4,793**	13,988	–	13,988

10 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows.

(i) Loss attributable to ordinary equity shareholders of the Company used in basic loss per share calculation:

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Loss for the year attributable to ordinary equity shareholders	**(574,134)**	(616,099)
Allocation of loss for the year attributable to financial instruments issued to investors	**51,925**	68,000
Loss for the year attributable to ordinary equity shareholders of the Company for the purpose of basic loss per share	**(522,209)**	(548,099)

(ii) *Weighted average number of shares*

	Year ended December 31,	
	2023	2022
Issued ordinary shares at January 1	**107,369,609**	107,369,609
Effect of issuance of new shares	**94,518,344**	–
Effect of the financial instruments issued to investors	**(18,258,773)**	(11,850,609)
Weighted average number of ordinary shares at December 31	**183,629,180**	95,519,000

Effect of the financial instruments issued to investors (see note 23) represents the weighted average number of ordinary shares of the Company that are subject to redemption and excluded from the calculation of the basic loss per share.

10 LOSS PER SHARE (continued)

(b) Diluted loss per share

As the Group incurred losses for the years ended December 31, 2023 and 2022, the potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended December 31, 2023 and 2022 were the same as basic loss per share.

11 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amount

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and others RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At January 1, 2022	–	165,838	34,007	315	382	282,360	482,902
Purchases	–	30,849	14,175	–	–	93,211	138,235
Transfer from construction in progress	–	13,733	–	–	13,252	(26,985)	–
Exchange adjustments	–	990	6	16	35	–	1,047
Disposals	–	(36,757)	(1,286)	(331)	–	–	(38,374)
At December 31, 2022 and January 1, 2023	**–**	**174,653**	**46,902**	**–**	**13,669**	**348,586**	**583,810**
Purchases	**–**	**18,369**	**3,629**	**–**	**–**	**89,289**	**111,287**
Transfer from construction in progress	**294,400**	**22,711**	**–**	**–**	**778**	**(317,889)**	**–**
Exchange adjustments	**–**	**–**	**3**	**–**	**7**	**–**	**10**
Disposals	**–**	**(3,654)**	**(352)**	**–**	**–**	**–**	**(4,006)**
At December 31, 2023	**294,400**	**212,079**	**50,182**	**–**	**14,454**	**119,986**	**691,101**

11 PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of carrying amount (continued)

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and others RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation							
At January 1, 2022	–	(45,475)	(5,045)	(63)	(140)	–	(50,723)
Charge for the year	–	(18,050)	(3,166)	(18)	(2,094)	–	(23,328)
Exchange adjustments	–	(942)	(6)	(3)	(24)	–	(975)
Disposals	–	20,517	964	84	–	–	21,565
At December 31, 2022 and January 1, 2023	**–**	**(43,950)**	**(7,253)**	**–**	**(2,258)**	**–**	**(53,461)**
Charge for the year	**(925)**	**(20,280)**	**(5,183)**	**–**	**(4,417)**	**–**	**(30,805)**
Exchange adjustments	**–**	**–**	**(3)**	**–**	**(7)**	**–**	**(10)**
Disposals	**–**	**698**	**260**	**–**	**–**	**–**	**958**
At December 31, 2023	**(925)**	**(63,532)**	**(12,179)**	**–**	**(6,682)**	**–**	**(83,318)**
Net book value:							
At December 31, 2023	**293,475**	**148,547**	**38,003**	**–**	**7,772**	**119,986**	**607,783**
At December 31, 2022	–	130,703	39,649	–	11,411	348,586	530,349

12 RIGHT-OF-USE ASSETS

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Land use rights RMB'000	Properties leased for own use RMB'000	Machinery and equipment leased for own use RMB'000	Total RMB'000
Cost:				
At January 1, 2022	44,938	3,611	–	48,549
Additions	–	21,077	96,893	117,970
Disposals	(1,278)	(3,434)	–	(4,712)
Exchange adjustments	–	146	–	146
At December 31, 2022 and January 1, 2023	**43,660**	**21,400**	**96,893**	**161,953**
Additions	**–**	**8,625**	**–**	**8,625**
Exchange adjustments	**–**	**13**	**–**	**13**
At December 31, 2023	**43,660**	**30,038**	**96,893**	**170,591**
Accumulated depreciation				
At January 1, 2022	(4,351)	(2,211)	–	(6,562)
Charge for the year	(875)	(8,223)	(32,298)	(41,396)
Disposals	183	3,434	–	3,617
Exchange adjustments	–	(137)	–	(137)
At December 31, 2022 and January 1, 2023	**(5,043)**	**(7,137)**	**(32,298)**	**(44,478)**
Charge for the year	**(875)**	**(7,987)**	**(32,298)**	**(41,160)**
Exchange adjustments	**–**	**(3)**	**–**	**(3)**
At December 31, 2023	**(5,918)**	**(15,127)**	**(64,596)**	**(85,641)**
Net book value:				
At December 31, 2023	**37,742**	**14,911**	**32,297**	**84,950**
At December 31, 2022	38,617	14,263	64,595	117,475

12 RIGHT-OF-USE ASSETS (continued)

The analysis of expense items in relation to leases recognized in the Group's profit or loss is as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights, carried at depreciated cost	**875**	875
Properties leased for own use, carried at depreciated cost	**7,987**	8,223
Machinery and equipment leased for own use, carried at depreciated cost	**32,298**	32,298
	41,160	41,396
Interest expenses on lease liabilities (note 5(a))	**3,941**	5,605
Expense relating to short-term leases	**543**	845

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 19(d) and 22, respectively.

13 INVESTMENT IN SUBSIDIARIES

The following list contains subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-in capital	Effective interest rate held by the Group As at December 31, 2022	**2023**	Principal activities
Sichuan Konas Pharmaceutical Co., Ltd. 四川科納斯製藥有限公司(note i)	The PRC/ September 30, 2016	RMB4,000,000/ RMB nil	100%	**100%**	Research and development
KLUS PHARMA INC.	The USA/ October 31,2014	USD100/ USD100	100%	**100%**	Research and development
Sichuan Kelun-Biotech Biopharmaceutical Target Drugs Research Centre Co., Ltd. 四川科倫博泰生物靶向藥物工程研究中心有限公司(note i)	The PRC/ March 30, 2023	RMB100,000,000/ RMB nil	Not applicable	**100%**	Research and development
Kelun-Biotech Hong Kong Co., Limited	Hong Kong/ October 27, 2023	HKD1,000,000/ HKD nil	Not applicable	**100%**	Business development

Notes:

(i). The official name of the entity is in Chinese. The English translation of the name is for reference only. The entity is a limited liability company under the law of the PRC.

All companies comprising the Group have adopted December 31 as their financial year end date.

14 OTHER INVESTMENTS

(a) Financial assets measured at FVPL

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Wealth management products issued by banks	**633,705**	–

As at December 31, 2023, the balance of financial assets measured at FVPL represents wealth management product issued by the banks in the PRC with a floating return which will be paid together with the principal on the maturity date.

The analysis on the fair value measurement of the above financial assets is disclosed in note 28(e).

(b) Financial assets measured at amortized cost

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Certificates of deposit	**325,870**	–

The Group purchases certificates of deposit from the bank with the terms that the Group could sell them to others after six months from initial acquisition day. The annual interest rates of these deposits are fixed and ranged from 3.05% to 3.25% per annum. As the Group manages the above financial products with the objective of the collection of contractual cash flows, it was recognized as financial assets measured at amortized cost in the consolidated financial statements.

15 OTHER NON-CURRENT ASSETS

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Prepayments for property, plant and equipment	**8,199**	9,826

16 INVENTORIES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Raw materials	**57,922**	48,643
Low-value consumables	**5,110**	3,993
	63,032	52,636

17 CONTRACT LIABILITIES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Receipts in advance	**510,692**	163,976

When the Group receives upfront payments before the provision of research and development service, this will give rise to contract liabilities at the start of a contract, until the revenue recognized from provision of research and development service exceeds the amount of the upfront payments. The amount of the upfront payments was negotiated on a case by case basis with the respective customers.

Movements in contract liabilities

	2023	2022
	RMB'000	RMB'000
Balance at January 1	**163,976**	109,038
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(163,578)**	(109,038)
Increase in contract liabilities as a result of receipts in advance	**510,294**	163,976
Balance at December 31	**510,692**	163,976

All of contract liabilities are expected to be recognized as income within one year.

18 TRADE AND OTHER RECEIVABLES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Other receivables	**16,294**	1,846
Value Added Tax ("VAT") recoverable	**106,802**	40,785
Prepayments	**56,017**	56,028
Prepaid tax (note 26)	**35,648**	–
	214,761	98,659

All of the trade and other receivables are expected to be recovered or recognized as expense within one year.

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

		As at December 31,	
		2023	2022
		RMB'000	RMB'000
Cash at bank		**1,568,767**	119,221
Less: restricted bank deposits	(i)	**(39,993)**	(26,261)
Cash and cash equivalents in the consolidated statement of financial position		**1,528,774**	92,960

(i) Restricted bank deposits are pledged deposits for issuance of bills payable with the maturity date within six months. The pledged deposits will be released upon the settlement of relevant bills payable.

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(b) Reconciliation of loss before taxation to cash generated from/(used in) operations:

	Note	Year ended December 31, 2023 RMB'000	2022 RMB'000
Loss before taxation		**(467,692)**	(567,364)
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	**30,805**	23,328
Depreciation of right-of-use assets	5(c)	**41,160**	41,396
Amortization of intangible assets	5(c)	**3,111**	2,640
Finance costs	5(a)	**84,309**	148,814
Net loss/(gain) on disposal of property, plant and equipment	4	**1,488**	(5,418)
Interest income on financial assets measured at amortized cost	4	**(5,870)**	–
Net realized and unrealized gain on financial assets measured at FVPL	4	**(10,533)**	(513)
Equity-settled share-based payment expenses	5(b)	**123,346**	19,811
Net foreign exchange (gains)/losses	4	**(16,085)**	31,944
Changes in working capital:			
(Increase)/decrease in inventories		**(10,396)**	26,071
Increase in trade and other receivables		**(124,367)**	(20,134)
(Increase)/decrease in amounts due from related parties		**15,129**	(20,991)
(Increase)/decrease in restricted bank deposits		**(13,732)**	10,367
Increase in trade and other payables		**252,620**	50,572
Increase in deferred income		**54,063**	–
Decrease in amounts due to related parties		**(138,070)**	(17,573)
Increase in contract liabilities		**240,273**	6,203
Net cash generated from/(used in) operating activities		**59,559**	(270,847)

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities

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

	Bank loans RMB'000 (note 21)	Other borrowings from Kelun Pharmaceutical RMB'000 (note 21)	Financial instruments issued to investors RMB'000 (note 23)	Lease liabilities RMB'000 (note 22)	Total RMB'000
At January 1, 2022	30,000	2,357,967	539,078	2,915	2,929,960
Changes from financing cash flows:					
Proceeds from new bank loans	115,000	–	–	–	115,000
Repayment of bank loans	(45,000)	–	–	–	(45,000)
Proceeds from other borrowings from Kelun Pharmaceutical	–	248,000	–	–	248,000
Capital element of lease rentals paid	–	–	–	(1,621)	(1,621)
Interest element of lease rentals paid	–	–	–	(34)	(34)
Interest paid	(2,893)	–	–	–	(2,893)
Total changes from financing cash flows	67,107	248,000	–	(1,655)	313,452
Exchange adjustments	–	25,099	–	61	25,160
Other changes:					
Increase in lease liabilities from entering into new leases during the year	–	–	–	117,970	117,970
Interest expenses (note 5(a))	2,893	108,301	40,943	5,605	157,742
Termination of lease arrangement	–	–	–	(1,340)	(1,340)
Transfer from trade and other payables	–	51,420	–	–	51,420
Total other changes	2,893	159,721	40,943	122,235	325,792
At December 31, 2022	100,000	2,790,787	580,021	123,556	3,594,364

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities (continued)

	Bank loans RMB'000 (note 21)	Other borrowings from Kelun Pharmaceutical RMB'000 (note 21)	Financial instruments issued to investors RMB'000 (note 23)	Lease liabilities RMB'000 (note 22)	Total RMB'000
At January 1, 2023	100,000	2,790,787	580,021	123,556	3,594,364
Changes from financing cash flows:					
Repayment of bank loans	(100,000)	–	–	–	(100,000)
Repayment of other borrowings from Kelun Pharmaceutical	–	(294,040)	–	–	(294,040)
Proceeds from financial instruments issued to investors	–	–	1,323,475	–	1,323,475
Capital element of lease rentals paid	–	–	–	(66,762)	(66,762)
Interest element of lease rentals paid	–	–	–	(9,449)	(9,449)
Interest paid	(563)	–	–	–	(563)
Total changes from financing cash flows	(100,563)	(294,040)	1,323,475	(76,211)	852,661
Exchange adjustments	–	–	–	8	8
Other changes:					
Increase in lease liabilities from entering into new leases during the year	–	–	–	8,625	8,625
Interest expenses (note 5(a))	563	3,253	76,827	3,941	84,584
Reclassification of financial liabilities recognized for preferential rights issued to investors to equity	–	–	(1,980,323)	–	(1,980,323)
Settlement of other borrowings by issuing equity to Kelun Pharmaceutical	–	(2,500,000)	–	–	(2,500,000)
Total other changes	563	(2,496,747)	(1,903,496)	12,566	(4,387,114)
At December 31, 2023	–	–	–	59,919	59,919

(d) Total cash outflow for leases

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Within operating cash flows	**397**	762
Within financing cash flows	**76,211**	1,655
	76,608	2,417

20 TRADE AND OTHER PAYABLES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Trade payables	**315,501**	123,259
Other payables	**3,029**	3,059
Bills payable	**67,449**	27,777
Accrued payroll and benefits	**133,773**	86,608
Other taxes payable	**3,725**	2,702
	523,477	243,405

As of the end of the reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Within 1 year	**365,199**	149,663
1 to 2 years	**16,798**	642
2 to 3 years	**349**	307
More than 3 years	**604**	424
	382,950	151,036

21 BANK LOANS AND OTHER BORROWINGS

The analysis of the carrying amount of bank loans and other borrowings is as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Current		
Guaranteed bank loans	**–**	100,000
Other borrowings from Kelun Pharmaceutical (note)	**–**	2,790,787
	–	2,890,787

Note: Pursuant to a share subscription and debt-to-equity swap agreement between the Company, Kelun Pharmaceutical and the other then shareholders on January 3, 2023, the Company settled RMB2,500,000,000 of the outstanding balance of other borrowings by issuing equity to Kelun Pharmaceutical. The remaining balance of the other borrowings from Kelun Pharmaceutical had been repaid in full by cash in February 2023.

22 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of each year:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Within 1 year	**54,406**	82,264
After 1 year but within 2 years	**3,221**	41,148
After 2 years but within 5 years	**2,292**	144
	5,513	41,292
	59,919	123,556

23 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS

In 2021, the Company entered into an investment agreement with certain independent investors, pursuant to which, these investors paid in the aggregate, RMB511,783,000 (or USD equivalent) and subscribed for the Company's share capital of RMB11,851,000 (referred as "Series A Investments").

In 2023, the Company entered into an investment agreement with certain independent investors, pursuant to which, these investors paid in the aggregate, RMB1,323,475,000 (or USD equivalent) and subscribed for the Company's share capital of RMB26,076,000 (referred as "Series B Investments").

The investors of these Series A Investments and Series B Investments (together "Pre-IPO Investments") are entitled to the preferential rights with certain triggering events beyond the Company's control. Upon the occurrence of any of the triggering events, the investors of the Pre-IPO Investments would have the unilateral right to request the Company and/or Kelun Pharmaceutical to purchase all or part of the shares of the Company held by them, therefore, the Company recognized financial liabilities for its obligation to buy back the shares, i.e. the financial instruments issued to investors. The financial liabilities are measured at the present value of the redemption amount. The changes in the carrying amount of the financial liabilities were recorded in profit or loss as "finance costs".

23 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS (continued)

The movements of the financial liabilities during each year are set out below:

	2023 RMB'000	2022 RMB'000
Balance at January 1	**580,021**	539,078
Issuance of shares with preferential rights	**1,323,475**	–
Changes in carrying amount of financial instruments issued to investors	**76,827**	40,943
Reclassification of financial instruments issued to investors to equity	**(1,980,323)**	–
Balance at December 31	**–**	580,021

As at December 31, 2022, financial liabilities of RMB580,021,000 were recognized for the Company's obligation under the preferential rights granted to some investors, to buy back its own shares upon occurrence of some specified events such as the change of control. These contingent payment obligations upon occurrence of specified events would be terminated upon an IPO automatically.

Following the Company's H shares were listed on the Stock Exchange on July 11, 2023, the contingent payment obligation lapsed and this financial liabilities amounted to RMB1,980,323,000 recognized for the preferential rights was reclassified back to the equity.

24 DEFERRED INCOME

	As at December 31, 2023 RMB'000	2022 RMB'000
Government grants	**64,741**	10,678

Deferred income of the Group mainly represents government grants received for the construction of property, plant and equipment, which would be recognized as "other net income" on a straight-line basis over the expected useful lives of the relevant assets.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Restricted Share Unit Scheme

Pursuant to a written shareholders' resolution of the Company passed on May 29, 2020, a Restricted Share Unit ("RSU") Scheme (the "Scheme") was adopted for purpose of providing incentives to eligible employees of the Group. The RSUs would be granted to eligible employees of the Group through four companies, which act as the share-based payment vehicles, at a discounted price. Subject to grantees' service to the Group through the applicable vesting date, the RSUs shall vest after 4 years from the date of grant. If employments of the grantees are terminated before the RSUs become vested, the unvested RSUs shall be repurchased at the purchase price paid by the grantees when the RSUs were granted plus reasonable interest. Each RSU entitles the holder to own one ordinary share of the Company. Under the Scheme, the maximum number of RSUs granted shall not exceed 30,000,000 units (equivalent to 30,000,000 ordinary shares of the Company).

The Group granted 21,319,000 RSUs to certain directors and employees of the Group at a discounted price ranging from RMB1 to RMB1.18 per unit on August 24, 2020 (the Grant Date 2020), the date on which employees accepted the terms and conditions of the RSUs offered by the Group.

The Group granted 5,290,000 RSUs to certain directors and employees of the Group at a discounted price of RMB1.30 per unit on December 30, 2022 (the Grant Date 2022), the date on which employees accepted the terms and conditions of the RSUs offered by the Group.

The Group granted 410,000 RSUs, 4,310,000 RSUs and 1,650,000 RSUs to certain directors and employees of the Group at a discounted price of RMB1.36 per unit, RMB1.30 per unit and RMB1.36 per unit on February 15, 2023 (the Grant Date 2023 I), April 11, 2023 (the Grant Date 2023 II) and September 28, 2023 (the Grant Date 2023 III), respectively, the date on which employees accepted the terms and conditions of the RSUs offered by the Group.

Fair value of RSUs

The fair value of services received in return for RSUs granted is measured by reference to the fair value of RSUs granted. The estimate of the fair value of RSUs granted at the Grant Date 2020, the Grant Date 2022, the Grant Date 2023 I and the Grant Date 2023 II were respectively RMB3 per unit, RMB51.7 per unit, RMB51.7 per unit and RMB51.7 per unit, which were determined with reference to the price per share in equity financing transaction with third parties of the Company close to the grant dates. The estimate of the fair value of RSUs granted at the Grant Date 2023 III was HKD78.00 (equivalent to RMB71.58) per unit, which was determined by the closing market share price of the grant date.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) Movements in the number of RSUs are as follows:

	Number of RSUs	
	2023	2022
At January 1	**18,271,250**	15,691,250
Granted during the year	**6,370,000**	5,290,000
Forfeited during the year	**(1,050,000)**	(2,710,000)
At December 31	**23,591,250**	18,271,250

(b) Equity-settled share-based payment expenses recognized in the consolidated statements of profit or loss during the year:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Research and development costs	**69,525**	17,759
Administrative expenses	**49,753**	2,052
Selling and distribution expenses	**4,068**	–
	123,346	19,811

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Provision for PRC Corporate Income Tax for the year	**–**	–
Withholding tax for the year	**106,442**	48,735
Withholding tax paid	**(142,090)**	(48,735)
Prepaid tax (Note 18)	**35,648**	–

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities not recognized:

In accordance with the accounting policy set out in note 1(r), the Group has not recognized deferred tax assets in respect of cumulative tax losses of RMB4,816,190,000 (2022: RMB4,425,977,000) as it is not probable that future taxable profits against which the losses can be utilized before expires.

Pursuant to the relevant laws and regulations in the PRC and US, the unrecognized tax losses at the end of each reporting period will expire in the following years:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
2023	**794**	794
2024	**4,527**	4,527
2026	**2,124**	2,124
After 2027	**4,808,745**	4,418,532
	4,816,190	4,425,977

All the tax losses of the Company can be carried forward for a maximum period of ten years pursuant to Notice No.76 issued by the Ministry of Finance and the State Administration of Taxation of the PRC on July 11, 2018, since the Company obtained its certificate of the High Technology Enterprise on December 3, 2020 and October 16, 2023 respectively.

All the tax losses of the Group's PRC subsidiary can be carried forward for a maximum period of five years.

All the tax losses of the Group's subsidiary in the USA can be carried forward for a maximum period of twenty years.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of years are set out below:

	Note	Share capital RMB'000	Capital reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at January 1, 2022		107,370	39,404	(2,564,262)	(2,417,488)
Changes in equity for 2022					
Loss for the year		–	–	(574,424)	(574,424)
Equity-settled share-based payment	25(b)	–	19,811	–	19,811
Balance at December 31, 2022 and January 1, 2023		**107,370**	**59,215**	**(3,138,686)**	**(2,972,101)**
Changes in equity for 2023					
Loss for the year		**–**	**–**	**(561,492)**	**(561,492)**
Issuance of new shares	27(c)	**59,937**	**2,598,744**	**–**	**2,658,681**
Issuance of ordinary shares by initial public offering and over-allotment, net of issuing costs	27(c)	**25,813**	**1,336,861**	**–**	**1,362,674**
Issuance of shares with preferential rights to investors	23	**26,076**	**1,297,399**	**–**	**1,323,475**
Recognition of financial liabilities recognized for preferential rights issued to investors	23	**–**	**(1,323,475)**	**–**	**(1,323,475)**
Reclassification of financial liabilities recognized for preferential rights issued to investors to equity	23	**–**	**1,980,323**	**–**	**1,980,323**
Equity-settled share-based payment	25(b)	**–**	**123,346**	**–**	**123,346**
Balance at December 31, 2023		**219,196**	**6,072,413**	**(3,700,178)**	**2,591,431**

27 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

The directors of the Company did not propose the payment of any dividend during the year.

(c) Share capital

As at December 31, 2022 and 2023, the Company has 116,050,609 shares and 219,195,499 shares registered with par value of RMB1 for each share, respectively.

	Note	2023 No. of shares	2023 Amount RMB'000	2022 No. of shares	2022 Amount RMB'000
Registered share capital					
At January 1		**116,050,609**	**116,051**	116,050,609	116,051
Issuance of new shares	i	**51,255,685**	**51,256**	–	–
Financial instrument issued to investors	ii	**26,076,205**	**26,076**	–	–
Issuance of ordinary shares by initial public offering	iv	**25,813,000**	**25,813**	–	–
At December 31		**219,195,499**	**219,196**	116,050,609	116,051

	Note	2023 No. of shares	2023 Amount RMB'000	2022 No. of shares	2022 Amount RMB'000
Ordinary shares, issued and fully paid					
At January 1		**107,369,609**	**107,370**	107,369,609	107,370
Issuance of new shares	i & iii	**59,936,685**	**59,937**	–	–
Financial instrument issued to investors	ii	**26,076,205**	**26,076**	–	–
Issuance of ordinary shares by initial public offering	iv	**25,813,000**	**25,813**	–	–
At December 31		**219,195,499**	**219,196**	107,369,609	107,370

	Note	2023 No. of shares	2023 Amount RMB'000	2022 No. of shares	2022 Amount RMB'000
Representing					
H shares issued		**126,624,405**	**126,625**	–	–
Domestic shares issued		**87,157,052**	**87,157**	101,346,482	101,347
Unlisted foreign shares issued		**5,414,042**	**5,414**	6,023,127	6,023
Total ordinary shares issued and fully paid at December 31		**219,195,499**	**219,196**	107,369,609	107,370

27 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

Note:

(i) On January 3, 2023, the Company, Kelun Pharmaceutical and the other then shareholders of the Company entered into a share subscription and debt-to-equity swap agreement, pursuant to which Kelun Pharmaceutical agreed to subscribe for an aggregate of 51,255,685 shares at a total subscription price of RMB2,650,000,000, among which RMB2,500,000,000 was settled through debt-to-equity swap and RMB150,000,000 was settled by cash on January 16, 2023. Accordingly, the Company recorded RMB51,256,000 in share capital and the remaining RMB2,598,744,000 in capital reserves.

(ii) On January 3, 2023, a series of share subscription agreements ("Series B Share Subscription Agreements") were entered into among the Company, Kelun Pharmaceutical, the other then shareholders and other investors. Pursuant to the Series B Share Subscription Agreements, the investors agreed to subscribe for an aggregate of 26,076,205 shares at a total subscription price of RMB409,850,000 and USD135,000,000 (approximately RMB913,625,000) which was completed in February 2023. Accordingly, the Company recorded RMB26,076,000 in share capital and the remaining RMB1,297,399,000 in capital reserves, totaling RMB1,323,475,000 in equity. As set out in Note 23, as the Company could not control all the triggering events of its redemption obligation, the Company reclassified RMB1,323,475,000 from capital reserves to financial liabilities as "financial instruments issued to investors". Following the Company's H shares were listed on the Stock Exchange on July 11, 2023, the contingent payment obligation lapsed and so the Company reclassified all of the financial liabilities amounted to RMB1,980,323,000 recognized for the preferential rights into was reclassified back to the equity.

(iii) During the year ended December 31, 2023, the share-based payment vehicles (see note 25) had paid RMB8,681,000 to the Company in respect of 8,681,000 registered but unpaid shares of the Company. Accordingly, the Company recorded RMB8,681,000 in share capital.

(iv) On July 11, 2023, the Company's H Shares were listed on the Stock Exchange, where 22,446,100 H shares were issued and subscribed at an offer price of HKD60.6 per H Share by way of initial public offering to Hong Kong and overseas investors. On August 8, 2023, pursuant to the exercise in full of the over-allotment option by the joint international underwriters of the initial public offering, the Company issued an additional 3,366,900 H shares at the offer price of HKD60.6 per H Share (the "Offering").

The gross proceeds raised from the Offering were HKD1,564,268,000 (equivalent to approximately RMB1,436,972,000). Net proceeds from the Offering were RMB1,362,674,000 (after offsetting costs directly attributable to the issue of shares of RMB74,298,000), of which RMB25,813,000 was recorded in share capital and the remaining RMB1,336,861,000 was recorded in capital reserves.

27 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Capital reserves

The capital reserves comprise the following:

- the amount represents the difference between the consideration received and the par value of the issued shares of the Company;
- the amount related to merger reserves resulted from business combinations in 2020 involving entities under common control;
- the portion of the grant date fair value of unlocked RSUs granted to employees of the Group that has been recognized in accordance with the accounting policy adopted for share-based payments in note 1(q); and
- the amount of financial liabilities arising from financial instruments issued to investors as set out in note 23.

(ii) Exchange reserves

The exchange reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operation with functional currency other than RMB. The reserves are dealt with in accordance with the accounting policies set out in note 1(t).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group is not subject to externally imposed capital requirements at December 31, 2023.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks, which the Group considers to represent low credit risk.

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

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at December 31, 2023, all of the total trade receivables were due from the Group's five largest customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These take into account the customer's past payment history, financial position and other factors. Trade receivables are due within 30 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. As the end of the year, the Group did not provide any loss allowance for trade receivables.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at December 31, 2022 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at December 31, 2022 RMB'000
Bank loans and other borrowings	3,013,748	–	–	–	3,013,748	2,890,787
Lease liabilities	86,087	43,103	147	–	129,337	123,556
Trade and other payables	243,405	–	–	–	243,405	243,405
Amounts due to related parties	206,908	–	–	–	206,908	206,908
Financial instruments issued to investors	620,963	–	–	–	620,963	580,021
	4,171,111	43,103	147	–	4,214,361	4,044,677

	As at December 31, 2023 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**	**Carrying amount at December 31, 2023 RMB'000**
Lease liabilities	**56,674**	**3,397**	**2,333**	**–**	**62,404**	**59,919**
Trade and other payables	**523,477**	**–**	**–**	**–**	**523,477**	**523,477**
Amounts due to related parties	**21,429**	**–**	**–**	**–**	**21,429**	**21,429**
	601,580	**3,397**	**2,333**	**–**	**607,310**	**604,825**

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

The Group's interest-bearing financial instruments at variable rates as at December 31, 2023 are the cash at bank and financial assets measured at FVPL, and the cash flow interest risk arising from the change of market interest rate on these balances of relatively short maturity is not considered significant. The Group's interest-bearing financial instruments at fixed interest rates as at December 31, 2023 are lease liabilities that are measured at amortized cost, and the change of market interest rate does not expose the Group to significant interest risk.

Accordingly, no sensitivity analysis is presented in respect of the Group's exposure to interest rate risk.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to cash and cash equivalents and amounts due to related parties that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars. The Group manages this risk as follows:

(i) Exposure to currency risk

The following table details the Group's exposure at the end of each reporting period to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year-end date.

	As at December 31, 2023		As at December 31, 2022	
	USD	**HKD**	USD	HKD
Exposure to foreign currencies (expressed in RMB'000)				
Cash and cash equivalents	**24,570**	**9,577**	5,905	–
Amounts due to related parties	**(234,386)**	**–**	(199,724)	–
Other borrowings from Kelun Pharmaceutical	**–**	**–**	(296,831)	–
	(209,816)	**9,577**	(490,650)	–

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss for the year and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	As at December 31, 2023		As at December 31, 2022	
	Increase/ (decrease) in foreign exchange rates	**Effect on loss for the year RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss for the year RMB'000
USD	**10%**	**(20,982)**	10%	(49,065)
	(10%)	**20,982**	(10%)	49,065
HKD	**10%**	**958**	10%	–
	(10%)	**(958)**	(10%)	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis during the reporting period.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

IFRS 13, *Fair value measurement* categorises fair value measurements into a three-level hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 valuations: Fair value measured using Level 2 inputs i.e., observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;
- Level 3 valuations: Fair value measured using significant unobservable inputs.

The following table presents the Group's financial assets that are measured at fair value at the end of reporting period:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Level 3		
Financial assets measured at FVPL		
Wealth management products issued by banks	**633,705**	–

Information about Level 3 fair value measurements

	Valuation techniques	**Significant unobservable inputs**
Investment in wealth management products	Discount cash flow method	– Interest return rate

During the years ended December 31, 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Information about Level 3 fair value measurements (continued)

The movements during the reporting period in the balance of these Level 3 financial assets of the Group at fair value through profit or loss are as follows:

	2023	2022
	RMB'000	RMB'000
Financial assets measured at FVPL		
At January 1	**–**	–
Payment for purchases	**2,060,000**	370,000
Changes in fair value recognized in profit or loss during the year	**10,533**	513
Redemption	**(1,436,828)**	(370,513)
At December 31	**633,705**	–

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as at December 31, 2022 and 2023.

29 COMMITMENTS

Commitments outstanding at December 31, 2022 and 2023 not provided for in the financial statements were as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Contracted for construction in progress	**18,642**	70,151

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Short-term employee benefits	**36,787**	27,061
Contributions to defined contribution retirement plan	**773**	545
Equity-settled share-based payment expenses	**51,305**	10,726
	88,865	38,332

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Identify of related parties

Name of party	**Relationship with the Group**
Mr. Liu Gexin (劉革新)	Ultimate controlling shareholder
Kelun Pharmaceutical (四川科倫藥業股份有限公司) together with its subsidiaries ("Kelun Group")	Immediate holding company
China Resources Kelun (Sichuan) Medicine Limited (華潤科倫醫藥(四川)有限公司) (Previously known as "Sichuan Kelun Medicine & Trade Group Co., Ltd. (四川科倫醫藥貿易集團有限公司)") together with its subsidiaries ("China Resources Kelun Group")	An associate of Mr. Liu Sichuan, director of the Group
Sichuan Kelun Doosan Biotechnology Co., Ltd. ("Kelun Doosan") (四川科倫鬥山生物技術有限公司)	A joint venture of Kelun Pharmaceutical

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Significant related party transactions

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Trade related:		
Provision of R&D services to:		
Kelun Group	**7,389**	16,190
Procurement of R&D services from:		
Kelun Group	**2,000**	15,666
Transfer R&D projects to:		
Kelun Group	**–**	39,761
Sales of low-value consumables to:		
Kelun Group	**26**	148
Disposal of property, plant and equipment ("PPE") to:		
Kelun Group	**948**	16,036
Procurement of goods from:		
Kelun Group	**10,030**	7,270
China Resources Kelun Group	**5,255**	25,605
	15,285	32,875
Procurement of PPE from:		
Kelun Group	**533**	7,217
China Resources Kelun Group	**306**	620
	839	7,837
Receiving other miscellaneous services from:		
Kelun Group	**19,533**	13,093
China Resources Kelun Group	**211**	143
	19,744	13,236
Non-trade related:		
Amounts borrowed from:		
Kelun Group	**–**	299,420
Amounts repaid to:		
Kelun Group	**294,040**	–
Debt-to-equity swap with Kelun Pharmaceutical	**2,500,000**	–
Interest expense on borrowings to Kelun Group	**3,253**	108,301
Interest expense on lease liabilities to Kelun Group	**3,799**	5,571

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Balances with related parties

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Amounts due from:		
– Trade Related:		
Kelun Group	**1,248**	61,635
Kelun Doosan	**104**	–
China Resources Kelun Group	**–**	165
	1,352	61,800
Amounts due to:		
– Trade Related:		
Kelun Group	**21,268**	176,308
China Resources Kelun Group	**161**	113
	21,429	176,421
– Non-trade related:		
Kelun Group	**–**	29,063
Kelun Doosan	**–**	1,424
	–	30,487
	21,429	206,908
Other borrowings from:		
Kelun Pharmaceutical	**–**	2,790,787
Lease liabilities due to:		
Kelun Group	**51,610**	122,854

(e) Guarantee provided by related parties

The bank loans of RMB100,000,000 as at December 31, 2022 was guaranteed by related parties, which had been repaid in February 2023.

The financial instruments issued to investors amounting to RMB1,980,323,000 was guaranteed by the related parties, and it had been automatically released when the Company was listed on the Stock Exchange on July 11, 2023.

31 COMPANY-LEVEL STATEMENTS OF FINANCIAL POSITION

	Note	As at December 31, 2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment		**528,058**	458,026
Right-of-use assets		**65,199**	97,087
Intangible assets		**1,336**	3,179
Investment in subsidiaries	13	**480,772**	410,604
Amounts due from related parties		**100,205**	–
Other non-current assets		**7,998**	8,876
		1,183,568	977,772
Current assets			
Inventories		**63,032**	52,636
Trade and other receivables		**209,338**	93,660
Amounts due from related parties		**1,352**	89,013
Financial assets measured at FVPL		**633,705**	–
Financial assets measured at amortized cost		**325,870**	–
Restricted deposits		**39,993**	26,261
Cash and cash equivalents		**1,526,413**	90,362
		2,799,703	351,932
Current liabilities			
Trade and other payables		**504,029**	229,944
Amounts due to related parties		**255,815**	377,723
Financial instruments issued to investors		**–**	580,021
Contract liabilities		**510,692**	163,976
Bank loans and other borrowings		**–**	2,819,449
Lease liabilities		**54,197**	82,072
		1,324,733	4,253,185

31 COMPANY-LEVEL STATEMENTS OF FINANCIAL POSITION (continued)

	Note	As at December 31, 2023 RMB'000	2022 RMB'000
Net current assets/(liabilities)		**1,474,970**	(3,901,253)
Total assets less current liabilities		**2,658,538**	(2,923,481)
Non-current liabilities			
Lease liabilities		**5,366**	40,942
Deferred income		**61,741**	7,678
		67,107	48,620
NET ASSETS/(LIABILITIES)		**2,591,431**	(2,972,101)
CAPITAL AND RESERVES			
Share capital	27(c)	**219,196**	107,370
Reserves	27(d)	**2,372,235**	(3,079,471)
TOTAL EQUITY/(DEFICIT)		**2,591,431**	(2,972,101)

Approved and authorized for issue by board of directors on March 25, 2024.

Ge Junyou
Executive Director

Zhou Zejian
Chief Financial Officer

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At December 31, 2022 and 2023, the directors consider the immediate parent of the Group to be Kelun Pharmaceutical which is incorporated in the PRC and ultimate controlling party of the Group to be Mr. Liu Gexin. Kelun Pharmaceutical is listed on the Shenzhen Stock Exchange and produces financial statements available for public use.

(Expressed in RMB unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS

Up to the date of issue of this report, the IASB has issued a number of amendments, and a new standards and interpretations which are not yet effective for the year ended December 31, 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*	January 1, 2024
Amendments to IAS 1, *Presentation of financial statements: Non-current liabilities with covenants*	January 1, 2024
Amendments to IFRS 16, *Leases: Lease liability in a sale and leaseback*	January 1, 2024
Amendments to IAS 7, *Statement of cash flows* and IFRS 7, *Financial Instruments: Disclosures: Supplier finance arrangements*	January 1, 2024
Amendments to IAS 21, *The effects of changes in foreign exchange rates: Lack of exchangeability*	January 1, 2025

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far, the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

FINANCIAL SUMMARY

	For the year ended December 31		
	2023	2022	2021
	RMB'000	RMB'000	RMB'000
Revenue	**1,540,493**	803,933	32,322
Cost of sales	**(781,308)**	(276,828)	(20,525)
Other net income/(expense)	**89,809**	(4,368)	34,843
Selling and distribution expenses	**(19,534)**	–	–
Administrative expenses	**(181,877)**	(95,303)	(96,174)
Research and development costs	**(1,030,966)**	(845,984)	(727,670)
Finance costs	**(84,309)**	(148,814)	(112,591)
Income tax	**(106,442)**	(48,735)	–
Loss for the year attributable to equity shareholders of the Company	**(574,134)**	(616,099)	(889,795)

	As at December 31		
	2023	2022	2021
	RMB'000	RMB'000	RMB'000
Current assets	**2,807,487**	332,316	298,341
Current liabilities	**(1,110,004)**	(4,167,361)	(3,444,914)
Net current assets/(liabilities)	**1,697,483**	(3,835,045)	(3,146,573)
Non-current assets	**702,268**	660,829	514,617
Non-current liabilities	**(70,254)**	(51,970)	(11,930)
Net assets/(liabilities)	**2,329,497**	(3,226,186)	(2,643,886)
Total Equities	**2,329,497**	(3,226,186)	(2,643,886)

DEFINITIONS

"AA"	alopecia areata, a common, distressing autoimmune disease in which immune cells in the body attack hair follicles, causing hair loss
"ADC(s)"	antibody drug conjugate(s)
"Affiliated Hospital of SMU"	the Affiliated Hospital of Southwest Medical University (西南醫科大學附屬醫院)
"Annual Results Announcement"	the annual results announcement for the year ended December 31, 2023 of the Company dated March 25, 2024
"Articles of Association"	the articles of association of the Company
"ASCO"	American Society of Clinical Oncology
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"BC"	breast cancer
"Board of Directors" or "Board"	our board of Directors
"bsAbs"	bispecific antibodies
"CDE"	Center for Drug Evaluation
"CG Code"	the "Corporate Governance Code" as contained in Appendix C1 to the Listing Rules
"China" or "PRC"	the People's Republic of China, which for the purpose of this Annual Report and for geographical reference only and except where the context requires, excludes Hong Kong, Macau and Taiwan
"China Kelun Resources"	China Resources Kelun (Sichuan) Medicine Limited (華潤科倫醫藥(四川)有限公司) (former name: Sichuan Kelun Medicine & Trade Group Co. Ltd. (四川科倫醫藥貿易集團有限公司)), an associate of Mr. LIU Sichuan and a connected person to us

"CKD-aP"	chronic kidney disease (CKD)-associated pruritus, a common condition of intense and systemic itchy skin in patients with CKD, a slowly progressive (months to years) decline in the kidneys' ability to filter metabolic waste products from the blood
"CLDN18.2"	Claudin 18.2, a member of the Claudin protein family
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"CMC"	chemistry, manufacturing and controls, also commonly referred to as process development, which covers the various procedures used to assess the physical and chemical characteristics of drug products, and to ensure their quality and consistency during manufacturing
"Companies Ordinance"	the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (as amended from time to time)
"Company", "our Company", "the Company", "Kelun-Biotech", "we" or "us"	Sichuan Kelun-Biotech Biopharmaceutical Co., Ltd. (四川科倫博泰生物醫藥股份有限公司), a joint stock company established in the PRC with limited liability on November 22, 2016 and the H Shares of which are listed on the Stock Exchange (stock code: 6990) and which includes its subsidiaries (from time to time) where the context so requires
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected transaction(s)"	has the meaning ascribed thereto under the Listing Rules
"continuing connected transaction(s)"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Kelun Pharmaceutical, Kelun International, the Employee Incentive Platforms and Mr. LIU Gexin
"Core Products"	has the meaning ascribed thereto in Chapter 18A of the Listing Rules; for the purpose of this Annual Report, our Core Products refer to SKB264 and A166
"CRC"	colorectal cancer

DEFINITIONS

"CRO"	contract research organization
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"DAR"	drug-to-antibody ratio, the average number of drugs conjugated to the antibodies
"DCR"	disease control rate, the total proportion of patients who demonstrate a response to treatment, equal to the sum of complete responses (CR), partial responses (PR) and stable disease (SD)
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary shares in the share capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB
"EC"	endometrial carcinoma
"EGFR"	epidermal growth factor receptor
"Ellipses"	Ellipses Pharma Limited
"Employee Incentive Platforms"	Kelun Huicai, Kelun Huide, Kelun Huineng and Kelun Huizhi
"ET"	endocrine therapy
"FDA"	the United States Food and Drug Administration
"first/second/third-line" or "1/2/3L"	the first/second/third line treatment
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market, research and consulting company
"FXI/FXIa"	factor XI, a type of blood protein playing a role in aiding the blood to clot. Factor XIa, one of the enzymes of the coagulation cascade. FXI is the zymogen form of FXIa

"GC"	gastric cancer
"GI"	gastrointestinal
"Global Offering"	the Hong Kong Public Offering and the International Offering (each as defined in the Prospectus)
"GMP"	the Good Manufacturing Practice of Medical Devices《醫療器械生產質量管理規範》
"Greater China"	the PRC, Hong Kong, Macau and Taiwan
"Group", "our Group" or "the Group"	our Company and its subsidiaries
"H Share(s)"	overseas listed foreign share(s) in the ordinary share capital of the Company with nominal value of RMB1.00 each, which are listed on the Stock Exchange
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"Harbour BioMed"	Harbour BioMed Therapeutics Limited, an indirect wholly owned subsidiary of HBM Holdings Limited (和鉑醫藥控股有限公司), a company listed on the Stock Exchange (stock code: 02142)
"HER2"	human epidermal growth factor receptor 2
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"HNSCC"	head and neck squamous cell carcinoma
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HR"	hormone receptor
"IFRS"	International Financial Reporting Standards
"IND"	investigational new drug or investigational new drug application, also known as clinical trial application in China or the U.S.

"JAK1/2"	Janus kinase 1 or Janus kinase 2
"Kelun Group"	Kelun Pharmaceutical and all of its subsidiaries
"Kelun Huicai"	Chengdu Kelun Huicai Enterprise Management Center Limited Partnership (成都科倫匯才企業管理中心(有限合夥)), a limited partnership established in the PRC on August 26, 2016, of which Kelun Jingchuan is the sole general partner, one of our Employee Incentive Platforms
"Kelun Huide"	Chengdu Kelun Huide Enterprise Management Center Limited Partnership (成都科倫匯德企業管理中心(有限合夥)), a limited partnership established in the PRC on August 26, 2016, of which Kelun Jingchuan is the sole general partner, one of our Employee Incentive Platforms
"Kelun Huineng"	Chengdu Kelun Huineng Enterprise Management Center Limited Partnership (成都科倫匯能企業管理中心(有限合夥)), a limited partnership established in the PRC on August 26, 2016, of which Kelun Jingchuan is the sole general partner, one of our Employee Incentive Platforms
"Kelun Huizhi"	Chengdu Kelun Huizhi Enterprise Management Center Limited Partnership (成都科倫匯智企業管理中心(有限合夥)), a limited partnership established in the PRC on August 26, 2016, of which Kelun Jingchuan is the sole general partner, one of our Employee Incentive Platforms
"Kelun International"	Kelun International Development Co., Limited (科倫國際發展有限公司), a wholly-owned subsidiary of Kelun Pharmaceutical incorporated in Hong Kong, one of our Controlling Shareholders upon Listing
"Kelun Jingchuan"	Chengdu Kelun Jingchuan Technology Co., Ltd. (成都科倫晶川科技有限公司), a limited liability company established under the laws of PRC on August 17, 2016 and is a wholly-owned subsidiary of Kelun Pharmaceutical
"Kelun Pharmaceutical"	Sichuan Kelun Pharmaceutical Co., Ltd. (四川科倫藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002422), one of our Controlling Shareholders

"Kelun Research Institute"	Sichuan Kelun Pharmaceutical Research Institute Co., Ltd. (四川科倫藥物研究院有限公司), a limited liability company established under the laws of PRC on October 16, 1998 and a wholly-owned subsidiary of Kelun Pharmaceutical
"KLUS PHARMA"	KLUS PHARMA INC., a corporation with limited liability incorporated in the State of New Jersey, the United States on October 31, 2014 and a wholly-owned subsidiary of our Company
"KOR"	kappa-opioid receptor, one major type of opioid receptor, which are ubiquitously distributed in the central and peripheral nervous system, with a major role in the induction, transmission and perception of sensations such as pain and itch
"Latest Practicable Date"	April 12, 2024, being the latest practicable date prior to the publication of this Annual Report for the purpose of ascertaining certain information contained herein
"LC"	lung cancer
"Listing"	the listing of our H Shares on the Stock Exchange on July 11, 2023
"Listing Date"	July 11, 2023
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"mAb(s)"	monoclonal antibody(ies)
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange, which is independent from and operated in parallel with Growth Enterprise Market of the Stock Exchange
"mCRC"	metastatic colorectal cancer
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix C3 to the Listing Rules
"MSD"	Merck Sharp & Dohme LLC together with its affiliates

"MTC"	medullary thyroid cancer
"NDA"	new drug application
"NMPA"	the National Medical Products Administration (國家藥品監督管理局) and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
"NPC"	nasopharyngeal cancer
"NSCLC"	non-small cell lung cancer
"OC"	ovarian cancer
"ORR"	proportion of patients with a complete response or partial response to treatment
"OS" or "overall survival"	the length of time from either the date of diagnosis or the start of treatment for a disease that patients diagnosed with the disease are still alive, used in clinical trials as a measurement of a drug's effectiveness
"Over-Allotment Option"	the over-allotment option which had been granted by the Company to the relevant underwriters to allot and issue up to an aggregate of 3,366,900 additional H Shares, representing 15% of the offer shares initially available under the Global Offering
"PD-1"	programmed cell death protein 1
"PD-L1"	PD-1 ligand 1
"PD-(L)1"	referring to PD-1 or PD-L1
"PFS"	the length of time during and after the treatment that a patient lives without the disease getting worse
"PRC Company Law"	the Company Law of the People's Republic of China (中華人民共和國公司法)
"Pre-IPO Employee Incentive Scheme"	the pre-IPO employee incentive scheme of the Company approved and adopted by the Board in 2016, as amended from time to time
"Pre-IPO Investments"	the Series A Financing and Series B Financing as defined in the Prospectus

"Prospectus"	the prospectus issued by the Company dated June 29, 2023
"PROTAC"	proteolysis targeting chimera, a heterobifunctional small molecule composed of two active domains and a linker, capable of removing specific unwanted proteins
"RDC(s)"	radionuclide drug conjugate(s)
"Remaining Kelun Group"	Kelun Pharmaceutical and its subsidiaries, excluding the Group
"Reporting Period"	the year ended December 31, 2023
"RET"	rearranged during transfection, a proto-oncogene, i.e., a gene that promotes cancer formation when altered by mutations or rearrangements. RET alterations have been reported to be a major oncogenic driver in about 2% of all cancers, most notably in NSCLC and MTC
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (as amended from time to time)
"Share(s)"	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each
"Shareholder(s)"	holder(s) of the Shares
"Sichuan Konas"	Sichuan Konas Pharmaceutical Co., Ltd. (四川科納斯製藥有限公司), a limited liability company established in the PRC on September 30, 2016 and a wholly-owned subsidiary of our Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Supervisor(s)"	member(s) of the supervisory committee of the Company
"TKI"	tyrosine kinase inhibitor

"TNBC"	triple-negative breast cancer
"TRAE"	treatment-related adverse event, which is an adverse event that in the investigator's opinion may have been caused by the study medication with reasonable possibility
"TROP2"	human trophoblast cell-surface antigen 2, which is a transmembrane protein frequently over-expressed in many types of solid tumors
"TSLP"	thymic stromal lymphopoietin
"Unlisted Foreign Share(s)"	unlisted ordinary Share(s) issued by the Company, with a nominal value of RMB1.00 each, which are subscribed for in a currency other than RMB
"Unlisted Share(s)"	Domestic Share(s) and/or Unlisted Foreign Share(s)
"US" or "U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"USD"	United States dollars, the lawful currency of the United States
"%"	per cent