WuXi XDC Cayman Inc.
藥明合聯生物技術有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2268

* *For identification purpose only*

Annual Report
2023

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Jincai Li
(Chief Executive Officer)
Mr. Jerry Jingwei Zhang
(Chief Operating Officer)
Mr. Xiaojie Xi
(Chief Financial Officer and Company Secretary)

Non-executive Directors

Dr. Zhisheng Chen *(Chairman)*
Dr. Weichang Zhou
Ms. Ming Shi

Independent Non-executive Directors

Dr. Ulf Grawunder
Mr. Stewart John Hen
Mr. Hao Zhou

AUDIT COMMITTEE

Mr. Hao Zhou *(Chairman)*
Dr. Ulf Grawunder
Mr. Stewart John Hen

REMUNERATION COMMITTEE

Dr. Ulf Grawunder *(Chairman)*
Mr. Stewart John Hen
Ms. Ming Shi

NOMINATION COMMITTEE

Dr. Zhisheng Chen *(Chairman)*
Dr. Ulf Grawunder
Mr. Hao Zhou

STRATEGY COMMITTEE

Dr. Jincai Li *(Chairman)*
Dr. Zhisheng Chen
Dr. Weichang Zhou
Dr. Ulf Grawunder
Mr. Stewart John Hen

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Dr. Jincai Li *(Chairman)*
Mr. Jerry Jingwei Zhang
Dr. Weichang Zhou
Ms. Ming Shi

AUTHORISED REPRESENTATIVES

Mr. Jerry Jingwei Zhang
Mr. Xiaojie Xi

COMPANY SECRETARY

Mr. Xiaojie Xi

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

CORPORATE HEADQUARTER

No.11 Xinhui Ring Road
Xinwu District
Wuxi City
Jiangsu Province
China

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

HONG KONG LEGAL ADVISER

Fangda Partners
26/F One Exchange Square
8 Connaught Place
Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors
35/F One Pacific Place
88 Queensway
Hong Kong

COMPLIANCE ADVISOR

Somerley Capital Limited
20/F, China Building
29 Queen's Road Central
Central
Hong Kong

STOCK CODE

2268

COMPANY WEBSITE

www.wuxixdc.com

CEO Statement

LETTER TO SHAREHOLDERS

I am pleased and honored to share with you some of the highlights from our journey through 2023 – a remarkable year for the Company characterized by outstanding operational and financial performance, strategic accomplishments, unwaving commitment to clients, and relentless pursuit of excellence and sustainability as a world-leading CRDMO in the bioconjugate industry.

STRATEGIC GROWTH AND FINANCIAL HIGHLIGHTS

2023 was a milestone year for us, both operationally and financially. We successfully completed our Global Offering and listed on the Main Board of Hong Kong Stock Exchange, a testament to the confidence the market and customers place in our vision, strategy, and execution capabilities. This significant achievement promoted our brand on a global scale, attracting top-tier investors and further solidifying our industry-leading position.

Financially, we achieved robust growth, with revenue and gross profit increasing by 114.4% and 114.3% year-on-year, respectively. Such outstanding results are indicative of our operational excellence, the increasing demand for our world-class bioconjugates CRDMO services, and our capability to empower global partners in accelerating and transforming XDC development.

STRATEGIC EXPANSION AND GLOBAL FOOTPRINT

As part of our "global dual sourcing strategy", our new manufacturing facility in Singapore broke ground in 2023. Also in 2023, we commenced operations of our "all-in-one" manufacturing facilities at our Wuxi site, with expanded capacity. These milestones underscore our commitment to catering to the burgeoning global demand for XDC services.

INNOVATION AND MARKET LEADERSHIP

Our relentless focus on innovation has propelled us to the forefront of the ADC CRDMO industry. With the introduction of innovative technologies onto our open platform and technologies, we are able to offer best-in-class services that significantly reduce the time from discovery to commercialization. In 2023, we further enriched our technology platform – with enhancements to our WuXiDARx™ technology, among others, ensuring we remain on the cutting edge of ADC development.

Our partnerships with top-tier ADC companies pave the way for our clients to have access to novel payload-linker technology and other tools. Multiple PPQ project wins demonstrate the faith our clients place in our expertise and capabilities, and pave a solid ground for our continuous fast growth on going forward.

CEO Statement

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

We remain deeply dedicated to sustainability and Environmental, Social and Governance (ESG) principles. In 2023, we initiated and participated in many programs aimed at reducing our environmental impact; promoted diversity and inclusion within our working environment; and engaged with our communities more constructively. The Company is committed to reducing the volume and density of our greenhouse gas emissions, and to continuously enhancing our operational efficiency so as to minimize our impact on the environment.

RECOGNITION AND AWARDS

We were honored with several prestigious awards, including being named the winner of the "Best Contract Development Manufacturing Organization (CDMO)" prize at the 2023 World ADC Awards. Our IPO was named "Best IPO" of the year 2023 by IFR Asia Awards and recognized as being the largest Healthcare Hong Kong IPO since 2021, supported by high-quality cornerstone investors. Such awards and recognition are a reflection of our team's hard work and dedication, and the innovative solutions we bring to our clients.

LOOKING FORWARD

As we look ahead, we are excited about the opportunities that lie in the thriving global bioconjugate industry. Our strategic initiatives – including capacity expansion and technology partnerships – are designed to further strengthen our market position and drive sustainable growth, as we remain committed to leveraging our fully integrated platform, expanding our global footprint, and investing in cutting-edge technologies.

In conclusion, I extend my heartfelt gratitude to our shareholders, customers, partners, and especially our dedicated employees, whose hard work and commitment have been instrumental in our success. Together, we can look forward a future filled with even greater achievements.

Dr. Jincai Li
Chief Executive Officer

March 25, 2024

Financial Summary

	For the year ended December 31,			
	2020 RMB'000	2021 RMB'000	2022 RMB'000	**2023 RMB'000**
Operating Results				
Revenue	96,353	311,131	990,423	**2,123,839**
Gross profit	8,081	113,494	261,083	**559,558**
Profit before tax	32,366	66,853	195,801	**359,612**
Net profit attributable to owners of the Company	26,299	54,930	155,731	**283,538**
Adjusted net profit attributable to owners of the Company [(1)]	32,775	77,087	194,357	**412,269**
Profitability				
Gross margin (%)	8.4%	36.5%	26.4%	**26.3%**
Net profit margin attributable to owners of the Company (%)	27.3%	17.7%	15.7%	**13.4%**
Adjusted net profit margin attributable to owners of the Company (%)	34.0%	24.8%	19.6%	**19.4%**

	As at December 31,			
	2020 RMB'000	2021 RMB'000	2022 RMB'000	**2023 RMB'000**
Financial Position				
Total assets	408,468	879,753	2,496,379	**6,735,321**
Total liabilities	32,787	858,872	1,015,600	**1,281,005**
Total equity	375,681	20,881	1,480,779	**5,454,316**
Bank balances and cash	28,390	26,325	334,972	**4,047,583**

(1) Details are set out in "Non-IFRS Measures" on pages 28 to 30 of this annual report.

Management Discussion and Analysis

BUSINESS REVIEW

The year 2023 marked a significant milestone for the Group. As a key player in the thriving, innovative global bioconjugates industry, the Group aims to achieve rapid and steady business growth by providing world-class bioconjugates CRDMO services and continuing to empower its global partners to accelerate and transform XDC development.

In parallel, the Group achieved a significant milestone with the successful completion of the Global Offering and the Listing of the Company on the Main Board of the Stock Exchange in November 2023, raising more than HK$4 billion in total proceeds. This achievement lays a firm foundation for the Company to pioneer new domains. Notably, the high profile IPO attracted top-tier investors across the globe, reaffirming their confidence in the industry's potential and acknowledging the Company's leading stature.

The Group is currently well-positioned to provide integrated service with its comprehensive CRDMO capabilities and facilities that have "All-in-One" capabilities from concept to commercialization. Since the completion of the Listing in November 2023, the Group has further secured multiple PPQ projects (Process Performance Qualifications projects which are normally performed at commercial scale) and has signed multiple technology collaborations with innovative biotech companies focusing on ADC developments.

Overall Performance for ADC CRDMO

During the Reporting Period, the Group's XDC CRDMO business model continued to fuel robust growth, guided by its "enable, follow and win the molecule" strategy. Leveraging on its fully integrated, one-stop bioconjugate platform, global footprint and robust supply chain network, the Group has a large number of ongoing integrated projects for ADCs and other bioconjugates. Capitalizing on the global trend of high demand for XDC outsourcing services, the Group has demonstrated exceptional growth and delivered the following outstanding results:

- Revenue for the year ended December 31, 2023 increased by 114.4% year-on-year to RMB2,123.8 million.
- Gross profit for the year ended December 31, 2023 increased 114.3% year-on-year to RMB559.6 million.
- The total number of integrated projects increased by 52.1% from 94 as at December 31, 2022 to 143 as at December 31, 2023.
- The total number of preclinical and phase I projects increased by 45.2% from 84 as at December 31, 2022 to 122 as at December 31, 2023.
- The total number of phase II and beyond projects increased substantially, from 10 as at December 31, 2022 to 21 as at December 31, 2023. Among these projects, 5 PPQ projects were scheduled within the Wuxi site.

Management Discussion and Analysis

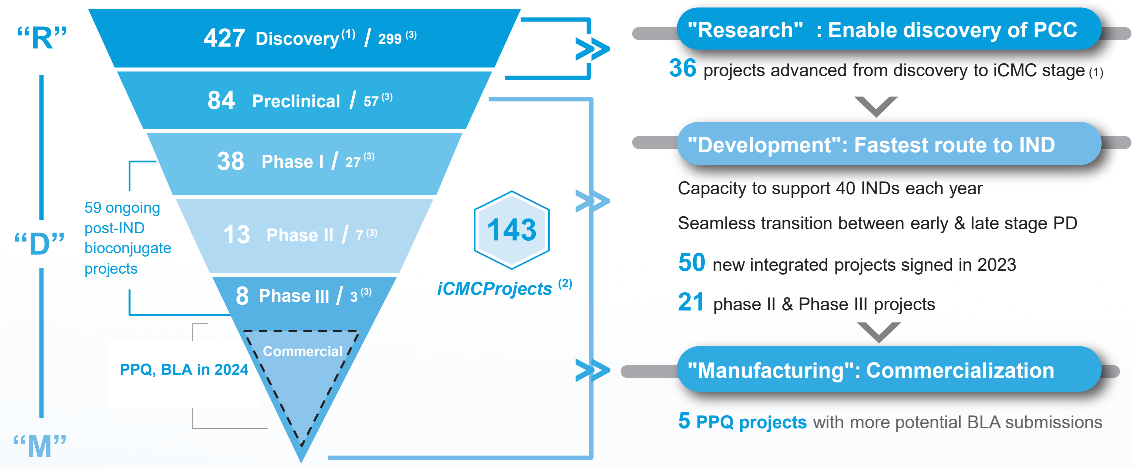
- The Group also achieved great success during the Reporting Period in progressing projects from the pre-IND stage to the post-IND stage, with 17 projects advancing from pre-clinical development into early-phase clinical development.

- The cumulative total number of drug discovery stage projects executed by the Group since inception increased by 42.8% from 299 as at December 31, 2022 to 427 as at December 31, 2023.

- The Group's effective execution of the "win the molecule" strategy cumulatively brought 47 external projects into the pipeline since the inception of the Group.

As at December 31, 2023, the Group had 143 ongoing integrated projects. In 2023, the Group helped customers to submit IND applications for 15 ADC candidates globally. The following funnel diagram sets forth the developmental stages and other details of ongoing integrated projects as at December 31, 2023. From its inception through December 31, 2023, the Group has executed a cumulative total of 427 discovery projects, which are of fundamental strategic importance to the Group. These discovery projects are strategically important to the Group, as they help establish customer relationships and play a vital role in winning integrated projects. The duration and contract value of discovery projects can vary significantly due to their nature.

Number of Projects Through "*Enable – Follow – Win*" Strategy



Notes:

1. Cumulative number of projects from the Group's inception through December 31, 2023.

2. Number of ongoing integrated CMC as at December 31, 2023.

3. The small-sized figures account for the number of projects as at December 31, 2022, save for the number of projects at discovery stage which is cumulative from the Group's inception up until December 31, 2022.

The following table sets forth the details of ongoing projects by each development stage. During the year ended December 31, 2023, 17 ongoing post-IND projects were advanced from the pre-IND stage leveraging the Group's ADC CRDMO services.

Development Stage	Typical Duration	As at December 31, 2022 Number of Ongoing Projects[3]	Type of Projects	Number of New Projects[5]	As at December 31, 2023 Number of Ongoing Projects[3]	Type of Projects	Number of New Projects[5]
Discovery	N/A[1]	299[4]	ADC (244) and XDC (55)	123	427[4]	ADC (322) and XDC (105)	128
Preclinical	1-2 years	57	ADC (51) and XDC (6)	33	84	ADC (77) and XDC (7)	42
Clinical	Multiple years[2]	37	ADC (33) and XDC (4)	2	59	ADC (52) and XDC (7)	8

Notes:

1. The duration of discovery projects can vary significantly in light of their ad hoc nature and depends on the types of projects at issue. Therefore, there is not a typical range for discovery projects.

2. The typical duration of projects in Phase I, II and III stages are 1-3 years, 2-4 years and 3-5 years, respectively.

3. "Number of ongoing projects" is the number of integrated projects excluding the number of integrated projects that are inactive or for which the customers notify the Group that they do not intend to further pursue. The Group deems an integrated project inactive if the Group has not been requested to provide services for three years.

4. Represents the cumulative number of discovery projects executed from the Group's inception through the indicated date. Since the duration and chance of success of discovery projects can vary significantly due to their early-stage nature, the cumulative number, instead of the ongoing project number, of discovery projects is presented to demonstrate the Group's experience in bioconjugate discovery. As the Group continues to win new drug discovery projects, this is expected to provide the Group with an increasing number of opportunities to compete for and win more cutting-edge XDC projects in addition to traditional ADC projects.

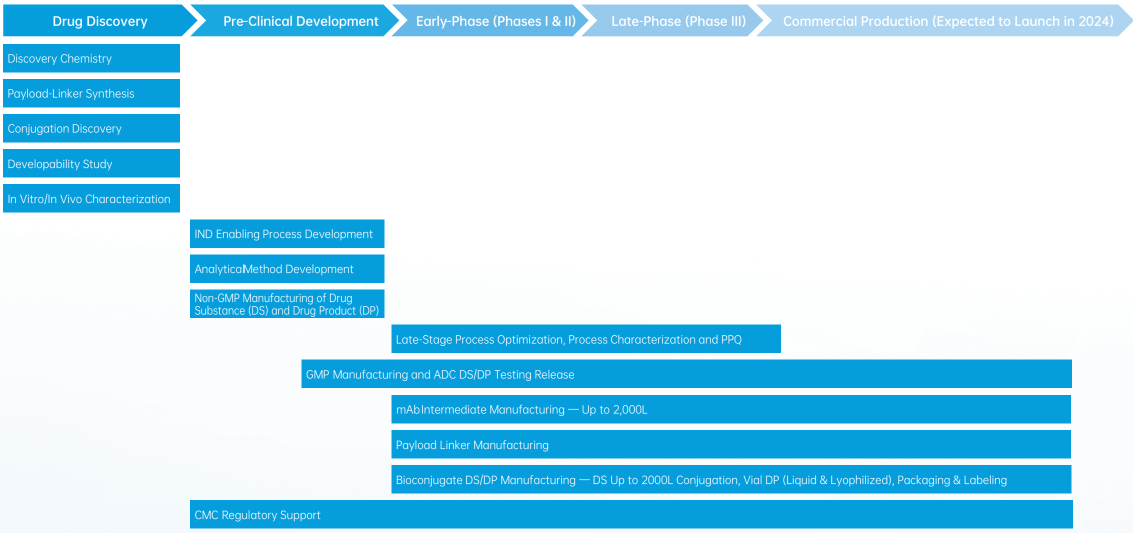
5. For preclinical-stage integrated projects, "number of new projects" is the number of preclinical projects that the Group was able to "enable" (advance from the discovery-stage) or "win" (bring into the Group's project pipeline) during the year ended on the indicated date. For discovery and clinical- stage projects, "number of new projects" is the number of projects that the Group was able to "win" (bring into the Group's project pipeline) during the year ended on the indicated date. The Group does not count clinical projects that they "follow" (advance from preclinical stage to clinical stage) as new clinical projects, as the Group deems an integrated project, regardless of its developmental stage, as one project.

Management Discussion and Analysis

The Group's revenue for the year ended December 31, 2023 increased by 114.4% year-on-year to RMB2,123.8 million, together with a 114.3% year-on-year growth in gross profit to RMB559.6 million, and 112.1% year-on-year increase in adjusted net profit attributable to owners of the Company to RMB412.3 million. The Group's total backlog also increased by 81.9% from US$318.0 million as at December 31, 2022 to US$578.6 million as at December 31, 2023. The revenue to be generated from the backlog may take longer to receive at various development stages as it depends on the success rate and progress of the projects which may not be within the Group's control.

The Group's Services

The Group is committed to continuously enhancing its platform, propelling and transforming the development of the bioconjugate industry, enabling global biopharmaceutical partners and benefiting patients worldwide. With its fully integrated, one-stop bioconjugate platform that covers key aspects of bioconjugate CRDMO services, including discovery, process development and GMP manufacturing for bioconjugates, monoclonal antibody intermediates and payload-linkers associated with bioconjugates, the Group empowers its customers at any stage of the development process to advance their projects. Throughout the Reporting Period, the Group's services, based on its "enable, follow and win the molecule" strategy, continued to satisfy the needs of clients/partners in developing their bioconjugates. The following diagram depicts the Group's bioconjugate CRDMO services.



Abbreviations: PPQ = process performance qualification; DS = drug substance; DP = drug product; mAb = monoclonal antibody.

Note: ADC/Bioconjugate CMC scope (process development, analytical method development, manufacturing) includes mAb intermediate for bioconjugate, payload-linker and bioconjugate DS and DP.

Drug Discovery and Process Development

Drug Discovery

ADC discovery is essential to identifying preclinical ADC drug candidates with the desired properties for preclinical candidate selection. Initially, the Group's discovery chemistry solutions empower customers to screen a variety of chemical payloads and linkers and to select payloads with desired mechanism of action as well as linkers with different release mechanism of action and physiochemical properties. The conjugation discovery stage conjugates different carrier and payload-linker combinations and utilizes in vitro and in vivo characterization methods to assist customers in assessing whether their drug candidates are appropriate as preclinical candidates. The Group then conducts a developability study to facilitate the selection of suitable preclinical candidates that enables a smooth transition for subsequent development.

The Group has a cumulative total number of 427 projects in the drug discovery stage since inception through December 31, 2023, involving (i) discovery chemistry, (ii) conjugation discovery, (iii) in vitro and in vivo characterization and (iv) developability study, representing an increase of 42.8% over the 299 projects as at December 31, 2022. Drug discovery projects are of fundamental strategic importance, as they enable the Group to establish and deepen relationships with client teams that are conducting cutting-edge research, which is expected to provide the Group with an increasing number of opportunities to compete for and win more cutting-edge XDC projects in addition to traditional ADC projects.

Early-stage Process Development

The Group conducts various IND-enabling studies to optimize the production of ADC and to ensure its manufacturing consistency and successful scale-up. Bioconjugate drug substance development empowers the Group to optimize the process development of various types of bioconjugates, develop scale-up processes and support technology transfer to proceed to GMP manufacturing, IND filing and beyond. Thereafter, bioconjugate formulation process development services facilitate early-stage molecular assessments and develop proper formulations for first-in-human clinical trials and commercial product launches, further supported by additional analytical method development, which characterizes the intermediates at various stages of development.

As at December 31, 2023, the Group has a total of 122 projects in the preclinical and phase I process development phase, involving (i) bioconjugate drug substance development, (ii) bioconjugate formulation process development and (iii) analytical method development, representing an increase of 45.2% over the 84 projects as at December 31, 2022.

Management Discussion and Analysis

Late-stage Development and Process Validation

Leveraging on our in-depth expertise in process development, the Group offers late-stage development and process validation services to help our customers evaluate the late-stage readiness of the developed process. These studies and associated adjustments to the process enable customers to ensure that all assay methods, raw materials, equipment and cleaning methods are validated, and the developed process for bioconjugate manufacturing delivers consistent product yield and purity within the entire operating range.

As at December 31, 2023, the Group has a total number of 21 projects in the phase II and beyond development and process validation, involving process optimization, process characterization and process performance qualification, representing a 110.0% increase over the 10 projects as at December 31, 2022. The increase in the number of projects was primarily due to the implementation of the "enable, follow and win the molecule" strategies, which has enabled several early-stage projects to advance into late-stage and won new projects during the Reporting Period.

Manufacturing of mAb intermediate, payload-linker, Drug Substance and Drug Product

The Group offers both non-GMP and GMP-compliant manufacturing of bioconjugate drug substance and drug product to cater to its customers' varied needs from the preclinical stage to the post-IND stage. As antibody intermediates are critical components of ADCs and certain other types of bioconjugates, the Group is expanding its capacity in the production of antibodies used for conjugation through expansion of its existing facility in Wuxi, China and is further enhancing its capability through and construction of a new facility in Singapore. The Group provides manufacturing services at different scales, including laboratory scale, non-GMP pilot scale and cGMP-compliant commercial scale, to support its customers' non-clinical, clinical and commercialization needs.

As at the date of this annual report, the Group operates three sites in Wuxi, Changzhou and Shanghai and offers fully integrated and end-to-end ADC CRDMO service capabilities from concept to commercialization, making the Group globally the only CRDMO dedicated to ADCs and other bioconjugates that provides full-spectrum services since the dual function facility and the kilo-scale payload-linker facility was launched in September and December 2023, respectively. Hence, the Group is able to better coordinate development and manufacturing operations, manage the supply chain and ensure seamless technology transfer and quality assurance as compared to a typical fragmented third-party service network with services provided from geographically dispersed locations. Generally, each of these operation sites focuses on differentiated segments of the bioconjugate discovery, development and manufacturing value chain, and collectively they enable the Group to provide integrated and comprehensive service offerings for ADCs and other bioconjugates.

The new facility in Singapore has commenced construction and is expected to begin delivering GMP-compliant operations in 2026. It is anticipated that there will be four production lines at the Singapore site for clinical and commercial manufacturing, including a dual-function production line for antibody intermediates for bioconjugates and drug substance, a production line for drug substance, as well as one drug product manufacturing line. The following table summarizes the current and upcoming manufacturing facilities of the Group:

Site	Site Area (sq.m.)	Capacity
Current facilities		
Wuxi	48,067	**Conjugation Drug Substance Production and Antibody Intermediates Production** • XBCM1 facility with single-use reactor systems ranging from five liters to 500 liters. • The dual function Xm Ab/XBCM 2 facility is designed with capacities ranging from 200 liters to 2,000 liters per batch for monoclonal antibody intermediates or 2,000 liters of drug substance per batch. A second line, also with dual function design, is currently under construction and is expected to commence operation in the fourth quarter of 2024. **Conjugation Drug Product Production** • XDP1 facility is designed to produce three million doses of bioconjugates in liquid or lyophilized form (3 million vials, lyophilizer 1x5 m^2 & 1x20 m^2). • XDP2 facility is designed to produce five million doses of bioconjugate drug products in liquid or lyophilized form (5 million vials, lyophilizer 1x5 m^2 & 2x20 m^2). • XDP3 facility is designed to produce seven million doses of bioconjugate drug products in liquid or lyophilized form (7 million vials, lyophilizer 2x30 m^2) **Payload Linker** • XPLM1 facility is designed as a kilogram-scale payload and linker production line.

Site	Site Area (sq.m.)	Capacity
Changzhou	819	**Payload Linker** • Laboratory with a field-tested containment design to safely handle highly potent compounds that are designated as OEB 5-rated materials. • Equipped with reaction kettles for GMP-compliant production with capacity of up to 150 liters per batch, enabling the Group to produce payloads and linkers at a kilogram scale.
Shanghai Waigaoqiao	8,927	**Discovery Lab** • Laboratories for bioconjugate discovery and support functions. **Bioconjugate Process Development Lab** • Bioconjugate process development and analytical method development. Laboratory-scale sample preparation to pilot-scale manufacturing of ADCs and other bioconjugates.
New facility		
Singapore	22,000	**Conjugation Drug Substance Production** • Dual function XmAb/XBCM3 facility is designed with capacity to produce 200 liters to 2,000 liters per batch for monoclonal antibody intermediates, or up to 2,000 liters per batch for bioconjugate drug substance. • XBCM4 production line facility with capacity of up to 500 liters of bioconjugate drug substance per batch. **Conjugation Drug Product Production** • The XDP4 facility is designed to produce eight million doses of bioconjugates in liquid or lyophilized form with 200 to 300 vials per minute for liquid or lyophilized drug products (8 million vials, lyophilizer 1x10 m^2 & 2x30 m^2).

CMC Regulatory Support

The Group's customers typically need to make filings to the relevant authorities before they can initiate clinical trials for their bioconjugates or commercialize their bioconjugates. The Group supports its customers' regulatory filings by drafting filing dossiers, addressing regulatory questions and conducting cGMP readiness assessments for them. The Group possesses extensive knowledge and experience with regard to regulatory filings in major jurisdictions including China, the United States and Europe. In addition, as a number of payload-linkers in the Group's library have maintained drug master files with the FDA, they are ready for IND filings.

Technology Platforms

The Group is devoted to providing a full range of CRDMO services through its industry leading and globally accessible proprietary technology platforms. During the Reporting Period, the Group has launched the upgraded proprietary version of the WuXiDARx™ technology, which effectively improves the homogeneity of ADC drugs, enhances process stability, reduces drug development costs, and greatly broadens the possibilities of different desired DARs of ADC drugs. WuXiDARx™ technology aims to enhance the percentage of desired DAR values and narrowly control the drug distribution in ADC products, so as to develop highly homogeneous ADCs with different DAR values of choices (DAR2, DAR4 and DAR6) with drugs conjugated to the interchain disulfide bonds. For example, the Group's already patented WuXiDAR4 technologies enable customers to achieve tight control of product homogeneity and lot-to-lot consistency, which in turn improve the pharmacokinetics profile and stability of bioconjugate products and potentially result in better clinical outcomes.

WuXiDARx™

The Group boasts a rich portfolio of conjugation technologies, extensive expertise in payload-linker synthesis and process development, industry-leading process development know-how, comprehensive analytical methods, as well as dedicated and specialized facilities, and also collaborates with third parties including GeneQuantum Healthcare and SyntaBio. To enhance its holistic discovery and development capability and stay ahead of the curve, the Group has announced multiple partnerships with prominent biotech or biopharma companies, such as its partnerships with Multitude Therapeutics and Intocell. The application of the new technologies from this partnership is expected to enable the Group's clients to accelerate the discovery of preclinical ADC candidates (PCCs) and develop more novel bioconjugates, and to improve the efficiency of development as well as the rate of success.

Management Discussion and Analysis

The Group initiated GMP manufacturing of bioconjugates with a variety of technologies for different needs, and these platforms serve as the cornerstone of the Group's CRDMO business model. Moreover, it empowers customers to explore and assess optimal conjugation and payload-linker technologies and fuels the growth of its pipeline through the implementation of the "enable, follow and win the molecule" strategies.

Sales and Marketing

During the Reporting Period, the, the Group actively participated in industry conferences, trade shows and scientific conferences. The Group participated in many in-person targeted events or virtual events such as the World ADC London and San Diego conferences tailored to the ADC market. As a result, the Group was able to grow the number of customers served each year. The Group expects to participate in more in-person meetings with customers and industry players to cultivate relationships and solidify brand recognition. Since its inception, the Group's senior management have been actively involved in managing its sales and marketing activities and maintaining direct relationships with key customers.

Quality Management

The Group's quality assurance department is committed to meeting the high industry standards and requirements and supervises the implementation of quality standards. The Group has established quality control measures for all stages of its operations, covering procurement of raw and auxiliary materials, research and development and process development, and manufacturing of bioconjugate intermediates and drug substances and drug products.

All manufacturing operations of the Group are conducted in accordance with the GMP regulations of the FDA, the EMA and the NMPA, which ensures the high-quality manufacturing of innovative bioconjugate products. The Group has completed more than 80 GMP audits from global clients and more than 10 audits by EU Qualified Persons. The Group believes that these certificates will help manifest the Group's premier quality system that meets global quality standards.

Environmental, Social and Governance

As required by applicable PRC laws and regulations, the Group's operation sites are required to pass the environmental impact assessment. The Group's Shanghai site and Wuxi sites passed such assessment in October 2022 and September 2019, respectively. To the extent possible, the Group's facilities use next-generation technologies and clean energy sources, which improve resource conservation and reduce the level of waste produced by the operations.

The Group aims to reduce its Scope 1 and Scope 2 greenhouse gas emissions intensity by 50% (tons/RMB10,000) by 2030 from a 2021 base year. For the near term, the Group aims to curb the increment of its resource consumption and waste generation in spite of the growing size of business operations. The Group will adjust the targets and goals in accordance with actual business operations, and will closely monitor the financial and non-financial impact on its business for actions taken to achieve these goals and targets. The implementation of this plan is facilitated by the design of the Group's sites, which utilize natural temperature and light for tailored heating, ventilation, air conditioning and lighting. The Group also ensures its equipment meets the energy efficiency requirements.

Investor Relations

The Group believes that good corporate governance is essential for enhancing the confidence of Shareholders and potential investors. To this end, the Group endeavors to maintain effective and on-going communication with investors to enhance transparency and to provide equal and timely disclosure of information to investors. The Group has developed a multichannel approach to ensure that the Shareholders and investors can exercise their rights in an informed manner based on a good understanding of the Group's key business imperatives. These communication tools include announcements, press releases, general meetings, interim and annual reports, investor and analyst briefings, roadshows, and industry and sell-side events. During the Reporting Period, the Group received recognition and awards for its effective investor relations programs and high-quality investors interaction. For instance, the Group received the "Best IPO (Equity Issue) Award" and "Outstanding IPO Award 2023" for the Global Offering and was recognized as the "Most Popular New Listing Company" by influential industry platforms.

The Group encourages Shareholders' active participation in results announcement earnings call, annual and extraordinary general meetings, non-deal roadshow meetings, facility tours and other events. The Group has also increasingly made use of web-based and digitalized communication methods.

Achievements and Company Awards

The Group ranked No. 2 globally and No. 1 in China among CRDMO for ADCs and other bioconjugates in terms of revenue in 2022, according to Frost & Sullivan. The Group employs an "enable, follow and win the molecule" strategy to not only grow with its existing customers by providing services from an early stage of their product development cycle, but also win new customers as their bioconjugates progress. As at the end of 2022 and 2023, as the result of its "enable" strategy, the Group had cumulatively progressed 30 and 36 ADC candidates, respectively, from discovery to CMC development. As the result of the "win the molecule" strategy, among the 143 ongoing integrated projects the Group had as at December 31, 2023, 47 were transferred to the Group from its customers or their outsourcing service providers. The Group's diverse and growing customer base includes both innovative biotechnology companies and global pharmaceutical companies, many of which are leading players in the ADC and bioconjugate space with potentially first-in-class or best-in-class pipeline programs. The number of customers grew significantly from 265 in 2022 to 345 in 2023. As at December 31, 2023, 6 out of the top 10 global pharmaceutical companies[1] partnered with the Group to develop ADCs or XDCs, which comprises approximately 24% of the Group's total revenue in 2023.

As an industry recognition of its capabilities, the Group has won the runner-up prize in the "Best Contract Manufacturing (CMO) Provider" category of the 2022 World ADC Awards and the "Best Contract Development Manufacturing Organization (CDMO)" prize at the 2023 World ADC Awards.

Future Outlook

Riding on the recent trend of transformative advancements in drug design and conjugation technologies, the ADC and bioconjugate drug market is at a growth inflection point. According to Frost & Sullivan, the global ADC drug market size is anticipated to grow at a CAGR of 30% from US$7.9 billion in 2022 to US$64.7 billion in 2030, which is considerably more rapid growth than the CAGR of 9.2% that is expected for the global biologics drug market (excluding bioconjugates) during the same period.

The development of ADCs and other bioconjugates requires a suite of interdisciplinary capabilities in both biologics and small molecules that are beyond the reach of most biopharmaceutical companies. In the current market, bioconjugates are extending beyond ADC first by conjugation of various payloads (other than chemical drugs) with antibodies, and further by conjugation of various carriers (other than antibodies) with various payloads. Hence the name "XDC" represents the myriad bioconjugation possibilities. By the end of 2022, the outsourcing rate of bioconjugate development had reached around 70%, which is much higher than the 34% outsourcing rate for other biologics. Therefore, based on the combination of the visible ADC drug development trend and the limited global ADC CRDMO capabilities at present, the Group is confident that it is entering into a whole new chapter of sustainable growth.

Looking forward, the Company intends to ride on the recent trends and capture the market opportunities and burgeoning demands through implementation of the following strategies:

- **Leverage the Group's fully integrated platform to further solidify its industry leading position, focusing on integrated projects and comprehensive service capabilities**

  Considering the globally limited ADC CRDMO capacities and the Group's unique "enable, follow and win the molecule" strategy executed through its proprietary "one-stop" platform, the Group expects to steadily bring new projects into the pipeline to maintain strong growth. In the foreseeable future, the Group will continue to gain additional market share with accelerated phase II/III projects and commercial projects to reinforce its "D" and "M" capabilities, while its research business continues to enable clients to develop innovative bioconjugation and enriches its CRDMO business model.

[1] The top 10 global pharmaceutical companies were ranked by their market capitalization as at December 31, 2023.

- **Implement plans to expand the Group's global manufacturing capacities in order to meet growing global demand**

  The Group will continue to expand its global footprint and capacity infrastructure. With GMP-compliant manufacturing expected to commence at the Singapore site in 2026, the Group believes that its expansion plan will allow further integration of manufacturing functions, expedite timelines and facilitate quality assurance, enabling the Group to keep pace with the growing global demand for bioconjugate CRDMO services. The Group is in the process of expanding its capacity at the Wuxi site, with the second line of the XmAb/XBCM2 facility and XDP3 currently under construction and are expected to commence operation in the fourth quarter of 2024 and the second quarter of 2025, respectively.

- **Continue to focus on cutting-edge technologies through internal R&D and strategic partnerships**

  The Group intends to continue investing in cutting-edge technologies and to enhance its R&D capabilities, so that it will remain at the technological frontier and continue to deliver high quality results to its customers. For instance, the Group intends to continue refining or upgrading the WuXiDARx technologies, and to extend their application to other XDC modalities. The Group may also selectively pursue strategic alliances, licensing arrangements, investments and bolt-on acquisitions in the future to enrich its technology toolboxes and service offerings and become the bioconjugate research, development and manufacturing platform of choice.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 114.4% from RMB990.4 million for the year ended December 31, 2022 to RMB2,123.8 million for the year ended December 31, 2023. This increase was primarily attributable to (i) the growth in the number of customers and projects, driven by rapid growth of the global XDC outsourcing service market and the Group's established position as a leading ADC CRDMO service provider in that market and (ii) the advancement of the Group's projects into late-stages (which typically yield higher contract values).

Revenue by Geographic Coverage

The Group has a broad, loyal and fast-growing customer base. During the Reporting Period, the Group generated revenue from ultimate customers primarily from North America, China and Europe. The following table sets forth a breakdown of revenue based on the location of the customers' headquarters, both in absolute amount and as a percentage of total revenue, for the years indicated:

	For the year ended December 31,			
	2023		2022	
Revenue	**RMB'000**	**%**	RMB'000	%
— North America	**851,931**	**40.1%**	444,916	44.9%
— China	**661,318**	**31.1%**	306,198	30.9%
— Europe	**497,593**	**23.4%**	175,225	17.7%
— Others[1]	**112,997**	**5.4%**	64,084	6.5%
Total	**2,123,839**	**100.0%**	990,423	100.0%

Notes:

- Revenue by geographic coverage is presented based on the location of the ultimate customer. For legacy contracts that were contracted with Remaining WXB Group but were executed by the Group, the Company classifies revenue based on the location of the customers' headquarters, rather than that of the Remaining WXB Group.

(1) Includes primarily countries and regions in Asia (excluding China) and Australia.

Revenue from customers in North America, China and Europe increased significantly during the Reporting Period, as a result of the continual increase in customer demand for ADC CRDMO services globally and in these markets particularly, driven by the development of the global ADC market and the Group's established industry position as a leading CRDMO service provider for ADCs and other bioconjugates.

Revenue by Project Development Stage

During the Reporting Period, we generated revenue from a mix of bioconjugate products in various development stages, which can be broadly categorized into (i) revenue from pre-IND projects, primarily bioconjugate discovery projects at the drug discovery stage and preclinical development stage, and (ii) revenue from post-IND projects, primarily at clinical and commercial stage. The following table sets forth a breakdown of revenue by development stages of projects, both in absolute amount and as a percentage of total revenue, for the years indicated:

	For the year ended December 31,			
	2023		2022	
Revenue	**RMB'000**	**%**	RMB'000	%
Pre-IND services	**926,774**	**43.6%**	381,071	38.5%
Post-IND services	**1,197,065**	**56.4%**	609,352	61.5%
Total	**2,123,839**	**100.0%**	990,423	100.0%

Revenue from post-IND services increased during the Reporting Period, primarily due to the increase in the number of post-IND projects which have relatively high contract value.

Revenue by Project Type

During the Reporting Period, the Group generated revenue from both ADC and non-ADC projects in terms of project types. The following table sets forth a breakdown of revenue by project types, both in absolute amount and as a percentage of total revenue, for the years indicated:

	For the year ended December 31,			
	2023		2022	
	RMB'000	**%**	RMB'000	%
ADC	**1,888,013**	**88.9%**	914,965	92.4%
Non-ADC	**235,826**	**11.1%**	75,458	7.6%
Total	**2,123,839**	**100.0%**	990,423	100.0%

As at December 31, 2023, the Group had 129 ADC integrated projects and 14 non-ADC integrated projects, accounting for respectively 90.2% and 9.8% of the total number of ongoing integrated projects as at the same date.

Cost of Sales

The cost of sales of the Group mainly consists of indirect production cost and overheads, direct labor cost, cost of raw materials and depreciation and amortization.

The cost of sales of the Group increased by 114.5% from RMB729.3 million for the year ended December 31, 2022 to RMB1,564.3 million for the year ended December 31, 2023, which was in line with the Group's revenue growth.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 114.3% from RMB261.1 million for the year ended December 31, 2022 to RMB559.6 million for the year ended December 31, 2023. The gross profit margin remained relatively stable at 26.3% for the year ended December 31, 2023, as compared to 26.4% for the year ended December 31, 2022, primarily due to the revenue and cost of sales of the Group increasing at a similar rate.

Selling and Marketing Expenses

The selling and marketing expenses of the Group mainly consist of (i) depreciation and amortization, representing primarily amortization of the customer relationship asset acquired in relation to the acquisition of the Payload & Linker Business, and (ii) labor cost for the sales and marketing personnel.

The selling and marketing expenses of the Group increased by 72.7% from RMB8.8 million for the year ended December 31, 2022 to RMB15.2 million for the year ended December 31, 2023, primarily due to an increase in labor cost for the Group's increase in headcount of its selling and marketing personnel.

Administrative Expenses

The administrative expenses of the Group mainly consist of (i) labor cost for the administrative personnel, (ii) expenses incurred by the Group in connection with the provision of rental and related services, (iii) logistics and accommodation expenses, (iv) depreciation and amortization, (v) professional service fees, and (vi) other administrative expenses primarily maintenance expense and utilities.

The administrative expenses of the Group increased by 260.8% from RMB49.2 million for the year ended December 31, 2022 to RMB177.5 million for the year ended December 31, 2023, primarily due to listing expenses. The administrative expenses of the Group (excluding listing expenses) increased by 152.0% from RMB49.2 million for the year ended December 31, 2022 to RMB124.0 million for the year ended December 31, 2023, primarily due to (i) an increase in labor cost for the Group's increase in headcount and average compensation level of its administrative personnel and management and (ii) an increase in expenses incurred in connection with the Group's provision of rental and related services.

Research and Development Expenses

The research and development expenses of the Group mainly consist of (i) labor cost for the R&D staff, (ii) cost of materials used in R&D activities, and (iii) depreciation and amortization of the equipment and facilities used by the R&D department and the amortization of the intangible assets used in R&D activities.

The research and development expenses of the Group increased by 127.5% from RMB33.8 million for the year ended December 31, 2022 to RMB76.9 million for the year ended December 31, 2023, primarily due to (i) an increase in cost of raw materials as a result of increase in material procurement for research and development activities driven by strong business growth and (ii) an increase in labor cost.

Finance Costs

The finance costs of the Group mainly include interest expense arising from intercompany borrowings between the Group and the Remaining WXB Group and lease liabilities.

The finance costs of the Group decreased by 74.4% from RMB2.9 million for the year ended December 31, 2022 to RMB742 thousand for the year ended December 31, 2023, primarily due to repayment of intercompany borrowings.

Other Income

The other income of the Group mainly consists of (i) rental income and other related income, (ii) sales of materials to related parties, (iii) interest income from banks, and (iv) research and other grants related to income.

The other income of the Group increased by 252.3% from RMB26.2 million for the year ended December 31, 2022 to RMB92.3 million for the year ended December 31, 2023, primarily due to (i) an increase in research and other grants received by the Group for the year ended December 31, 2023 and (ii) an increase in interest income from banks, primarily attributable to the increase in bank deposits due to revenue growth and net proceeds received from the Listing.

Other Gains and Losses

The other gains and losses of the Group primarily include fair value gain on wealth management products and net foreign exchange gain and loss.

The Group recorded net other gains of RMB46.7 million for the year ended December 31, 2022 and recorded net other losses of RMB43.9 million for the year ended December 31, 2023, primarily due to (i) net foreign exchange losses for the year ended December 31, 2023, which in turn resulted primarily from fluctuations in the exchange rate between U.S. dollar, Hong Kong dollar and Renminbi for the year ended December 31, 2023 as the Group settled with overseas customers in U.S. dollars, and (ii) an increase in fair value gain on wealth management products.

Impairment Losses Under ECL Model, Net of Reversal

The impairment losses (recognized)/reversed, under expected credit loss ("**ECL**") model, net of reversal, primarily consisted of credit loss on the Group's trade receivables.

The Group recognized impairment losses, net of reversal, of RMB43.4 million for the year ended December 31, 2022 and reversed impairment losses of RMB22.0 million for the year ended December 31, 2023, primarily due to the subsequent repayment of trade receivables by certain customers.

Income Tax Expense

The income tax expenses of the Group increased by 89.8% from RMB40.1 million for the year ended December 31, 2022 to RMB76.1 million for the year ended December 31, 2023, which is in line with the increment of profit before tax. The effective tax rate of the Group increased from 20.5% for the year ended December 31, 2022 to 21.2% for the year ended December 31, 2023, mainly due to an increase during the Reporting Period in certain expenses not deductible for tax purposes, such as recognition of share-based compensation expense.

Net Profit and Net Profit Margin

As a result of the foregoing, the net profit of the Group increased by 82.1% from RMB155.7 million for the year ended December 31, 2022 to RMB283.5 million for the year ended December 31, 2023. The significant growth in the Group's net profit during the Reporting Period was generally in line with the Group's revenue and business growth (after taking into account the effects of non-recurrent listing expenses in 2023 and non-cash share-based compensation in 2022 and 2023). The net profit margin of the Group decreased from 15.7% for the year ended December 31, 2022 to 13.4% for the year ended December 31, 2023, primarily due to the listing expenses incurred during the Reporting Period, which there were none incurred for the year ended December 31, 2022.

Adjusted Net Profit and Adjusted Net Profit Margin

The adjusted net profit of the Group increased by 112.1% from RMB194.4 million for the year ended December 31, 2022 to RMB412.3 million for the year ended December 31, 2023. Adjusted net profit margin was 19.4% for the year ended December 31, 2023, nearly unchanged from 19.6% for the year ended December 31, 2022.

Basic and Diluted Earnings Per Share

The basic earnings per share of the Group increased by 55.6% from RMB0.18 for the year ended December 31, 2022 to RMB0.28 for the year ended December 31, 2023. The diluted earnings per share of the Group increased by 44.4% from RMB0.18 for the year ended December 31, 2022 to RMB0.26 for the year ended December 31, 2023. The increase in basic and diluted earnings per share was primarily due to the increase in the net profit resulting from the strong business growth of the Group as discussed above.

Property, Plant and Equipment

The balance of the property, plant and equipment of the Group increased by 56.0% from RMB798.6 million as at December 31, 2022 to RMB1,246.2 million as at December 31, 2023, primarily due to (i) an increase in value of land and buildings as a result of the expansion of the Wuxi site and Shanghai site and the addition of properties at Shanghai site, (ii) an increase in leasehold improvements and (iii) an increase in machinery in connection with the Wuxi site.

Investment Property

The balance of investment property of the Group decreased by 3.1% from RMB12.8 million as at December 31, 2022 to RMB12.4 million as at December 31, 2023, primarily due to depreciation on a straight-line basis.

Goodwill

As at December 31, 2023, goodwill amounted to RMB215.2 million in relation to the acquisition of the Payload & Linker Business in 2021, and remains unchanged from the balance as at December 31, 2022.

Intangible Assets

The intangible assets of the Group mainly include license and customer relationship.

Intangible assets increased by 4.5% from RMB50.6 million as at December 31, 2022 to RMB52.9 million as at December 31, 2023, primarily due to the addition of certain license in 2023.

Inventories

The inventories of the Group mainly include raw materials, pharmaceutical intermediates and consumables. The inventory level of the Group decreased by 25.6% from RMB62.9 million as at December 31, 2022 to RMB46.8 million as at December 31, 2023, primarily representing inventory consumed for the research and development and manufacturing activities and the Group's inventory optimization strategy to lower its inventory level to approximately two to three months' supply.

Trade and Other Receivables

Trade receivables from related parties primarily comprised outstanding amounts receivable from the Remaining WXB Group. Trade receivables from third parties primarily represented the outstanding amounts receivable from other customers for CRDMO services. Other receivables primarily represented (i) receivables for purchase of raw materials on behalf of customers, (ii) advances to suppliers, (iii) deposits (iv) prepayments and (v) value-added tax recoverable.

The trade and other receivables of the Group increased by 89.2% from RMB505.6 million as at December 31, 2022 to RMB956.4 million as at December 31, 2023, primarily attributable to receivables from contracts with third parties, which is in line with the business growth of the Group.

Contract Assets

Contract assets increased by 79.8% from RMB17.3 million as at December 31, 2022 to RMB31.1 million as at December 31, 2023, generally in line with the business growth of the Group.

Contract Costs

The contract costs of the Group represent recoverable costs incurred for fulfilling contracts, revenue of which had not been recognized.

The contract costs of the Group increased by 40.9% from RMB80.7 million as at December 31, 2022 to RMB113.7 million as at December 31, 2023, which is generally in line with the business growth of the Company.

Financial Assets at Fair Value through Profit or Loss ("FVTPL")

The financial assets at FVTPL primarily consisted of the investments in wealth management products of the Group. The Group had financial assets at FVTPL of RMB400.0 million as at December 31, 2022, representing the Group's wealth management products with a bank with a maturity term of within 12 months. The Group had nil financial assets at FVTPL as at December 31, 2023.

Trade and Other Payables

Trade payables to related parties comprised outstanding amounts payable to the Remaining WXB Group in relation to, among others, the development, manufacturing and testing services for antibody and payload-linkers, raw material procurement services and project management services that the Group procured from these related parties. Trade payables to third parties primarily represented the balances due to the suppliers for purchase of raw materials and consumables. Other payables and accrual to related parties mainly arose from administrative services provided by the related parties and rental expenses. Other payables and accruals to third parties represented payables arising from the construction in progress.

The trade and other payables of the Group increased by 18.4% from RMB773.3 million as at December 31, 2022 to RMB915.4 million as at December 31, 2023, primarily due to the increases in trade payables and payables for the purchase for property, plant and equipment, which were generally in line with the Group's business expansion.

Contract Liabilities

The contract liabilities of the Group mainly include advance payments received from customers.

Contract liabilities increased by 116.7% from RMB151.5 million as at December 31, 2022 to RMB328.3 million as at December 31, 2023, which is generally in line with the increase in the number of projects initiated during the Reporting Period.

Liquidity and Capital Resources

Bank balances and cash increased by 1,108.2% from RMB335.0 million as at December 31, 2022 to RMB4,047.6 million as at December 31, 2023, primarily due to the business growth of the Group and net proceeds received from the Listing. Taking into account the financial resources available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its present requirements.

Treasury Policy

Currently, the Group follows a set of funding and treasury policies to manage its capital resources and to mitigate the associated risks. The Group expects to fund its working capital and other capital requirements from a combination of various sources, including but not limited to internal financing and external financing at reasonable market rates. In order to better control and minimize the cost of funds, the Group's treasury activities are centralized and all cash transactions are done with reputable banks. The cash and cash equivalents held by the Group are mainly composed of RMB, HKD and USD.

Significant Investments, Material Acquisitions and Disposals

As at December 31, 2023, there was no significant investment held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Indebtedness

Borrowings

The Group does not have any borrowings as at December 31, 2023 as compared to borrowings in the amount of RMB71.1 million as at December 31, 2022, all of which were loans from related parties.

The Group does not maintain any banking facilities. The gearing ratio of the Group was calculated as total borrowings divided by total equity of the Group. Since the Group does not have any borrowings as at December 31, 2023, the gearing ratio is not applicable.

Contingent Liabilities and Guarantees

As at December 31, 2023, the Group did not have any outstanding debt securities, mortgage, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, liabilities under acceptance or acceptance credits, or other similar indebtedness, material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group.

Currency Risk

The foreign currency transactions of the Group, including its sales, expose the Group to foreign currency risk. Certain of the Group's bank balances and cash, trade and other receivables and trade and other payables are denominated in currencies other than the functional currency of the relevant group entities, such as U.S. dollar, Euro, Hong Kong dollars and Swiss franc, and thus expose the Group to such foreign currency risk.

During the Reporting Period, the majority of the Group's revenue was generated from sales denominated in USD, while most of the purchase of raw materials, property, plant and equipment and expenditures were settled in RMB in China and in USD in foreign countries. At the end of the Reporting Period, the Group has maintained monetary assets and liabilities denominated in foreign currencies (mainly in USD and HKD), which expose the Group to foreign currency risk. As a result, the Group's net profit margin was impacted when the foreign exchange rates fluctuated, especially among USD, HKD, RMB and EUR.

The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. The Group plans to engage in a series of forward contracts to manage its currency risk. Hedge accounting will also be adopted by the Group for derivatives to mitigate the impact on profit or loss due to the fluctuation in foreign exchange rates.

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Company presents adjusted net profit (non-IFRS measure), adjusted net profit margin (non-IFRS measure), adjusted net profit attributable to owners of the Company (non-IFRS measure), margin of adjusted net profit attributable to owners of the Company (non-IFRS measure), adjusted EBITDA (non-IFRS measure), adjusted EBITDA margin (non-IFRS measure) and adjusted basic and diluted earnings per share (non-IFRS measures) as additional financial measures, which are not required by, or presented in accordance with IFRS.

The Group believes that the adjusted financial measures are useful for understanding and assessing underlying business performance and operating trends, and that the Group's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual, non-recurring, non-cash and/or non-operating items that the Group does not consider indicative of the performance of the Group's core business. The

Group's management believes that these non-IFRS financial measures are widely accepted and adopted in the industry in which the Group operates. However, these non-IFRS financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with IFRS. Shareholders of the Company and potential investors should not view the adjusted results on a stand-alone basis or as a substitute for results under IFRS. Furthermore, these non-IFRS financial measures may not be comparable to the similarly-titled measures represented by other companies.

Additional information is provided below to reconcile adjusted net profit (non-IFRS measure), EBITDA (non-IFRS measure) and adjusted EBITDA (non-IFRS measure) to the corresponding measures under IFRS.

Adjusted Net Profit (non-IFRS measure)

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Net Profit	**283,538**	155,731
Add:		
Listing expenses	**53,578**	–
Share-based compensation expense	**75,153**	38,626
Adjusted Net Profit (non-IFRS measure) *(Note i)*	**412,269**	194,357
Margin of Adjusted Net Profit (non-IFRS measure)	**19.4%**	19.6%
Adjusted Net Profit Attributable to Owners of the Company (non-IFRS measure)	**412,269**	194,357
Margin of Adjusted Net Profit Attributable to Owners of the Company (non-IFRS measure)	**19.4%**	19.6%
	RMB	RMB
Adjusted Earnings Per Share (non-IFRS measure)		
— Basic	**0.40**	0.22
— Diluted	**0.38**	0.22

Note:

i. In order to better reflect the key performance of the Group's current business and operations, the adjusted net profit is calculated as the net profit excluding listing expenses (a non-recurring item) of RMB53.6 million (2022: listing expenses of nil), and share-based compensation (a non-cash item) of RMB75.2 million (2022: share based compensation of RMB38.6 million).

EBITDA and Adjusted EBITDA (non-IFRS measure)

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Net Profit	**283,538**	155,731
Add:		
Income tax expense	**76,074**	40,070
Depreciation and amortization	**59,513**	30,812
Finance costs	**742**	2,916
Less:		
Interest income from banks	**(47,363)**	(4,612)
EBITDA (non-IFRS measure)	**372,504**	224,917
EBITDA Margin (non-IFRS measure)	**17.5%**	22.7%
Add:		
Listing expenses	**53,578**	–
Share-based compensation expense	**75,153**	38,626
Adjusted EBITDA (non-IFRS measure)(Note i)	**501,235**	263,543
Adjusted EBITDA Margin (non-IFRS measure)	**23.6%**	26.6%

Note:

i. The adjusted EBITDA is a non-IFRS financial measure and is calculated as the EBITDA excluding listing expenses (a non-recurring item) of RMB53.6 million (2022: listing expenses of nil), and share-based compensation (a non-cash item) of RMB75.2 million (2022: share based compensation of RMB38.6 million).

Employee and Remuneration Policies

As at December 31, 2023, the Group employed a workforce totaling 1,178 employees. The staff costs, including Directors' emoluments but excluding any contributions to (i) retirement benefit scheme contributions and (ii) share-based payment expenses, were RMB260.5 million for the year ended December 31, 2023, as compared to RMB144.2 million for the year ended December 31, 2022. The remuneration package of employees generally includes salary and bonus elements. In general, the Group determines the remuneration package based on the qualifications, position and performance of its employees. The Group also makes contributions to social insurance fund, including basic pension insurance, medical insurance, unemployment insurance, childbirth insurance, work-related injury insurance funds, and housing reserve fund as applicable to the countries where the Group operates.

The Group has adopted the Pre-IPO Share Option Schemes to provide incentive or reward to eligible participants for their contribution or potential contribution to the Group. Details of the Pre-IPO Share Option Schemes are set out in the section headed "Statutory and General Information — E. Pre-IPO Share Option Schemes" in Appendix IV to the Prospectus.

The remuneration of the Directors and senior management is reviewed by the Remuneration Committee and approved by the Board. The relevant experience, duties and responsibilities, time commitment, working performance and the prevailing market conditions are taken into consideration in determining the emoluments of the Directors and senior management.

Dividend

The Board does not recommend any payment of final dividend for the year ended December 31, 2023.

KEY EVENTS AFTER THE REPORTING PERIOD

The Group has the following events taken place subsequent to December 31, 2023:

- On January 3, 2024, the Company entered into a memorandum of understanding with IntoCell, a Korean biotechnology company dedicated to developing novel ADC platform technologies, for a comprehensive partnership in drug-linker technology and CRDMO services spanning from discovery to commercialization.

- On January 31, 2024, the Company entered into a partnership agreement with Multitude Therapeutics, a clinical stage biotechnology company renowned for ADC platform technologies, which announces their comprehensive partnership in drug-linker technology, which is co-developed with HySlink Therapeutics, and CRDMO services spanning from discovery to commercialization. On the same day, the Company signed a memorandum of understanding with HySlink Therapeutics.

- On March 4, 2023, the Company has been included into the Shanghai Connect and Shenzhen Connect of the Hong Kong Stock Connect.

Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Jincai Li (李錦才), aged 51, has been a Director since the incorporation of the Company in December 2020, and re-designated as an executive Director and appointed as the chief executive officer of the Company since June 2023. He is primarily responsible for formulating overall strategic plans, business development and daily operations of the Group. Dr. Li has over 20 years of experience in biologics process development, scale-up and cGMP manufacturing. Under his leadership, the Group became a leading ADC and bioconjugates CRDMO, which was recognized by the 2022 World ADC Awards' Runner Up prize in the "Best CMO Provider" category and the winner of the 2023 World ADC Awards' prize in the "Best Contract Development Manufacturing Organization (CDMO)" category. Throughout 2021 and 2022, Dr. Li spearheaded the integration of the ADC capabilities into the Group and accumulatively his team had completed more than 40 ADCs/bioconjugates IND filings in China, US and Europe.

Dr. Li obtained a bachelor's degree in chemical engineering and technology and minor in chemistry from Tsinghua University (清華大學) in China in July 1996 and obtained a doctoral degree majoring in chemical and biochemical engineering from University of Maryland Baltimore County in the United States in August 2001.

Mr. Jerry Jingwei Zhang (張靖偉), aged 56, has been an executive Director and the chief operating officer of the Company since April 2023. He is primarily responsible for managing the supply chain and operation supports and capacity expansion of the Group. Mr. Zhang has over 25 years of experience in the biotech industry.

Mr. Zhang obtained his bachelor's degree in biomedical science from Nankai University (南開大學) in China in July 1990 and received his master's degree in business administration from New York University, Stern School of Business in the United States in May 2002.

Mr. Xiaojie Xi (席曉捷), aged 48, has been an executive Director since June 2023 and the chief financial officer and company secretary of the Company since May 2023 and November 2023, respectively. Mr. Xi is primarily responsible for overseeing the overall financial management, financial matters and strategic development of the Group. He brings over 18 years of financial industry experience in the United States and China to the Company, including investment banking and private equity investment with many public and private companies.

Mr. Xi obtained his bachelor's degree in biochemistry from Wuhan University (武漢大學) in China in 1997 and obtained his master's degree in science from Rutgers, The State University of New Jersey in the United States in 2002. He further obtained his MBA degree with distinction from New York University, Stern School of Business in the United States in 2008.

Non-executive Directors

Dr. Zhisheng Chen (陳智勝), aged 51, has been a Director since the incorporation of the Company in December 2020 and was re-designated as a non-executive Director since June 2023. He was appointed as the chairman of the Board in May 2021. Dr. Chen is primarily responsible for providing overall guidance on the business, strategy and corporate development of the Group. Dr. Chen has been an executive director of WuXi Biologics since February 2014. He has over 20 years of experience in the biotech industry.

Dr. Chen obtained a bachelor's degree in chemical engineering and technology from Tsinghua University (清華大學) in China in July 1994 and a doctoral degree in chemical engineering from University of Delaware in the United States in August 2000. In November 2018, Dr. Chen was appointed by International Society for Pharmaceutical Engineering (ISPE) to serve on the International Board of Directors.

Dr. Weichang Zhou (周偉昌), aged 60, has been a Director since December 2020 and was re-designated as a non-executive Director since June 2023. He is primarily responsible for providing guidance on corporate strategy and governance to the Group. Dr. Zhou was formerly an executive director of WuXi Biologics from May 2016 until March 2024 and has been a non-executive director of WuXi Biologics since March 2024. He has around 30 years of experience in the biotech industry.

Dr. Zhou obtained a bachelor's degree in organic chemical engineering from Jiangxi University of Technology (江西工學院) in China in July 1982 and obtained a doctoral degree in chemical engineering from the University of Hannover in Germany in 1989 and conducted postdoctoral research at the German Association of Chemical Engineering and Biotechnology, Swiss Federal Institute of Technology Zurich, and the University of Minnesota.

Ms. Ming Shi (施明), aged 49, has been a non-executive Director since June 2023. She is primarily responsible for providing guidance on corporate strategy and governance to the Group. Ms. Shi has had over 20 years of management experience in the fields of finance, business development and operations.

Ms. Shi obtained her bachelor's degree in international finance from the International Business School of Shanghai University (上海大學國際商學院) in China in July 1997. She has been a member of the Chinese Institute of Certified Public Accountants since September 2016 and a graduate of GE's Executive Financial Leadership Program (EFLP).

Independent Non-Executive Directors

Dr. Ulf Grawunder, aged 59, has been an independent non-executive Director since November 2023. He is primarily responsible for supervising and providing independent judgment to the Board. Dr. Grawunder is an experienced Swiss life-science entrepreneur with over 20 years of experience in the therapeutic antibody development industry.

Dr. Grawunder obtained his bachelor's degree in biochemistry in October 1988 and his master's degree in Biochemistry in July 1991, both from the University of Bayreuth, Germany. He subsequently obtained his doctoral degree in cell biology from the University of Basel in Switzerland in July 1994. In addition, Dr. Grawunder holds a diploma in Technology Entrepreneurship from the University St. Gallen, School of Business in Switzerland.

Mr. Stewart John Hen, aged 57, has been an independent non-executive Director since November 2023. He is primarily responsible for supervising and providing independent judgment to the Board. Mr. Hen has over 20 years of deep and extensive experience working in the biopharmaceutical and life sciences industry.

Mr. Hen obtained his bachelor's degree in chemical engineering from the University of Delaware in the United States in May 1989 and his master's degree in chemical engineering practice from Massachusetts Institute of Technology in the United States in February 1992. He also obtained an MBA from the University of Pennsylvania in the United States in May 1996.

Directors and Senior Management

Mr. Hao Zhou, aged 48, has been an independent non-executive Director since November 2023. He is primarily responsible for supervising and providing independent judgment to the Board. Mr. Zhou has served as an independent non-executive director of Angelalign Technology Inc. a company listed on the Stock Exchange (stock code: 6699) since April 2023, an independent non-executive director of Bairong Inc., a company listed on the Stock Exchange (stock code: 6608) since March 2021 and an independent non-executive director of Meitu, Inc., a company listed on the Stock Exchange (stock code: 1357) since 2016.

Mr. Zhou obtained his bachelor's degree from the Shanghai International Studies University (上海外國語大學) in the PRC in July 1998.

SENIOR MANAGEMENT

Dr. Jincai Li (李錦才), Mr. Jerry Jingwei Zhang (張靖偉) and Mr. Xiaojie Xi (席曉捷) are members of the Company's senior management. For their biographies, please refer to "Directors — Executive Directors" above.

Dr. Marie Meiying Zhu (朱梅英), aged 59, has been the chief technology officer of the Company since July 2023. She is primarily responsible for early discovery of new drugs, drug-linkers, and novel conjugation technologies and leading CMC development of ADC drugs. Dr. Zhu is a well-regarded expert and executive with over 28 years of drug development experience in the biotech industry.

Dr. Zhu obtained her bachelor's degree in chemical engineering from Tsinghua University (清華大學) in China in July 1987 and later obtained her master's degree in chemical engineering from Illinois Institute of Technology in the United States in December 1991. In May 1999, Dr. Zhu earned her doctoral degree in chemical engineering from the University of Wisconsin-Madison in the United States.

Dr. Jianjun Luo (羅建軍), aged 57, has been the vice president of the Company since June 2023. He is primarily responsible for supervising ADC conjugate and drug product manufacturing of the Group. Dr. Luo has over 30 years of experience in the biopharmaceuticals industry.

Dr. Luo obtained a bachelor's degree in chemical engineering from Beijing University of Chemical Technology (北京化工大學) in July 1988 and a master's degree in chemical engineering from Institute of Process Engineering, Chinese Academy of Sciences (中國科學院過程工程研究所) in July 1991. In May 2002, Dr. Luo obtained a doctoral degree in chemical engineering from Dalhousie University in Canada.

Directors' Report

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2023.

PRINCIPAL ACTIVITIES

The Group is principally engaged in research, discovery, development and manufacturing of the drug substances and drug products of antibody drug conjugates and other bioconjugates.

A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/paid up capital, is set out in note 39 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

A review of the business of the Group during the year, a discussion and analysis on the Group's future business development and the financial and operational key performance indicators employed by the Directors in measuring the performance of the Group's business are set out in the sections headed "CEO Statement" on pages 4 to 5 of this annual report, "Financial Summary" on page 6 of this annual report, and "Management Discussion and Analysis" on pages 7 to 31 of this annual report. The financial risk management objectives and policies of the Group are set out in note 33 to the consolidated financial statements in this annual report. All the above sections shall form an integral part of this Directors' report.

DIRECTORS

The Directors who held office since the Listing Date and up to the date of this Director's report were:

Executive Directors:

Dr. Jincai Li *(Chief Executive Officer)*
Mr. Jerry Jingwei Zhang *(Chief Operating Officer)*
Mr. Xiaojie Xi *(Chief Financial Officer and Company Secretary)*

Non-executive Directors:

Dr. Zhisheng Chen *(Chairman)*
Dr. Weichang Zhou
Ms. Ming Shi

Independent Non-executive Directors:

Dr. Ulf Grawunder
Mr. Stewart John Hen
Mr. Hao Zhou

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 32 to 35 of this annual report.

SERVICE CONTRACTS OF THE DIRECTORS

On October 30, 2023, each of the executive Directors and non-executive Directors has entered into a three year service contract with the Company effective from November 17, 2023, subject to termination before expiry by either party giving not less than three months' notice in writing to the other.

On October 30, 2023, each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years effective from November 17, 2023, subject to termination before expiry by either party giving not less than three months' notice in writing to the other.

Save as disclosed above, none of the Directors has entered, or proposes to enter, into a service contract with the Company during the year ended December 31, 2023.

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in note 11 to the consolidated financial statements in this annual report.

During the year ended December 31, 2023, none of the Directors and the five highest paid individuals of the Group (i) received any emolument from the Group as an inducement to join or upon joining the Group; (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the schemes.

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

Details of the retirement and employee benefits scheme of the Company are set out in notes 32 and 34 to the consolidated financial statements.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in this annual report, there were no changes in information which are required to be disclosed and had not been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence during the period from the Listing Date to December 31, 2023, in accordance with Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

NON-COMPETITION UNDERTAKING

As disclosed in the Prospectus, WuXi Biologics has entered into a deed of non-competition with the Company dated October 30, 2023 (the "**Deed of Non-Competition**") pursuant to which, WuXi Biologics shall not and shall procure its close associates (except any member of the Group) not to, directly or indirectly (whether in the capacity of principal or agent, whether for its own benefit or jointly with or on behalf of any person, firm or company), commence, engage in, participate in or acquire any business (other than the Group business) which competes or may compete directly or indirectly with the Group Core Business ("**Restricted Business**") and further undertaken that during the restricted period, WuXi Biologics shall and shall procured its associates (except any member of the Group) to offer and make referral to any new business investment or other business opportunity ("**New Business Opportunity**") relating to the Restricted Business to the Company first when such New Business Opportunity is identified or made available and inform the Group such New Business Opportunity in writing. Please refer to the Prospectus for details of the Deed of Non-Competition.

The Company has received the annual confirmation that WuXi Biologics has complied with the Deed of Non-Competition since the Listing Date and up to December 31, 2023. No New Business Opportunity was informed by WuXi Biologics as at December 31, 2023.

The independent non-executive Directors have reviewed the implementation of the Deed of Non-Competition since the Listing Date and up to December 31, 2023, according to the information and confirmation provided by or obtained from WuXi Biologics and are satisfied that WuXi Biologics has duly complied with the Non-competition Undertaking.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed in this annual report, as at December 31, 2023, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there was no transaction, arrangement or contract of significance in relation to the Group's business to which the Company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or any of his/her connected entities had a material interest, whether directly or indirectly, subsisted during or at the end of the Reporting Period.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there was no contract of significance (whether for the provision of services to the Group or otherwise) in relation to the Group's business to which the Company, or any of its subsidiaries was a party and in which any Controlling Shareholder or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted during or at the end of the Reporting Period.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the related party transactions for the year ended December 31, 2023 were set out in note 36 to the consolidated financial statements. Details of any related party transaction which constitute continuing connected transaction not exempted from annual reporting requirement under Chapter 14A of the Listing Rules are disclosed below.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of the Group constitute the continuing connected transactions of the Company for the year ended December 31, 2023.

Connected Persons

The following parties with whom we have entered into transactions are regarded as our connected persons under the Listing Rules:

WuXi Biologics is one of our Controlling Shareholders, directly holding approximately 50.10% of the total issued share capital of the Company as of December 31, 2023. Accordingly, WuXi Biologics is our connected person for the purposes of connected transactions under Chapter 14A of the Listing Rules.

WuXi Biologics Co., Ltd is an indirectly wholly-owned subsidiary of WuXi Biologics, and WuXi Biologics Co., Ltd is our connected person for the purposes of connected transactions under Chapter 14A of the Listing Rules.

WuXi AppTec is one of our Controlling Shareholders, indirectly holding 98.23% equity interest of STA, which wholly owns STA Pharmaceutical, and STA Pharmaceutical directly holding approximately 33.40% of the total issued share capital of the Company as of December 31, 2023. Accordingly, WuXi AppTec is our connected person for the purposes of connected transactions under Chapter 14A of the Listing Rules.

STA Changzhou is indirectly held as to 98.56% equity interest by WuXi AppTec, and therefore is a non-wholly owned subsidiary of WuXi AppTec. Accordingly, STA Changzhou is our connected person for the purposes of connected transactions under Chapter 14A of the Listing Rules.

1. *Antibodies Master Services Agreement*

On November 3, 2023, the Company entered into the antibodies master services agreement with WuXi Biologics (the "**Antibodies Master Services Agreement**"), pursuant to which the Remaining WXB Group will provide certain development, manufacturing and quality testing services in relation to antibody intermediates (e.g., mAbs) for use in provision of our CRDMO services. The term of Antibodies Master Services Agreement commenced from November 17, 2023 and expire on December 31, 2025. For details, please refer to the Prospectus.

For the three years ended December 31, 2023, 2024 and 2025, the total amounts payable by the Group to the Remaining WXB Group for transactions contemplated under the Antibodies Master Services Agreement are subject to the annual caps of RMB1,081.0 million, RMB1,015.0 million and RMB895.0 million, respectively. The actual amount incurred during the Reporting Period was RMB908.8 million.

2. *Raw Materials Procurement Services Agreement*

On November 3, 2023, the Company entered into the raw materials procurement services agreement with WuXi Biologics (the "**Raw Material Procurement Services Agreement**"), pursuant to which the Group will procure certain ADC/conjugate-related raw materials (e.g., inner package material, ultrafiltration membrane package and joints and tubes) together with the ancillary logistics and warehousing services, material testing and quality control services from the Remaining WXB Group. The term of Raw Material Procurement Services Agreement commenced from November 17, 2023 and expire on December 31, 2025. For details, please refer to the Prospectus.

For the three years ended December 31, 2023, 2024 and 2025, the total transaction amounts payable by the Group for the raw materials and related services under the Raw Materials Procurement Services Agreement are subject to the annual caps of RMB34.5 million, RMB32.6 million and RMB21.3 million, respectively. During the Reporting Period, the actual transaction amounts paid by the Group to the Remaining WXB Group under the Raw Materials Procurement Services Agreement amounted to RMB41.4 million. As such, the Company made an announcement on February 9, 2024 to re-comply with the relevant requirements under Chapter 14A of the Listing Rules. Please refer to the aforementioned announcement for further details.

3. *Project Management Services Agreement*

On November 3, 2023, the Company entered into the project management services framework agreement with WuXi Biologics (the "**Project Management Services Agreement**"), pursuant to which the Remaining WXB Group will provide certain project management services in relation to the preliminary planning, design and construction of new facilities (e.g., at Wuxi and Singapore) to the Group. The term of Project Management Services Agreement commenced from November 17, 2023 and expire on December 31, 2025. For details, please refer to the Prospectus.

For the three years ended December 31, 2023, 2024 and 2025, the total amounts payable by the Group for the project management services to be provided under the Project Management Services Agreement are subject to the annual caps of RMB31.2 million, RMB50.0 million and RMB55.0 million, respectively. The actual amount incurred during the Reporting Period was RMB21.2 million.

4. Overseas Technical Support Services Agreement

On November 3, 2023, the Company entered into the overseas technical support services framework agreement with WuXi Biologics (the "**Overseas Technical Support Services Agreement**"), pursuant to which the CMC (chemistry, manufacturing and controls) professionals of the Remaining WXB Group will provide CMC services in relation to the life cycle of ADC in overseas jurisdictions (e.g., the United States and Europe) to the Group. The CMC services provided by the Remaining WXB Group are mainly related to overseas business development services (i.e., securing new sales orders from potential clients/partners) and customer support services (i.e., advising existing clients/partners when their projects encounter any particular difficulties and providing them technical information on such projects). The term of Overseas Technical Support Services Agreement commenced from November 17, 2023 and expire on December 31, 2025. For details, please refer to the Prospectus.

For the three years ended December 31, 2023, 2024 and 2025, the total amounts payable by the Group for the overseas technical support services to be provided under the Overseas Technical Support Services Agreement are subject to the annual caps of RMB12.0 million, RMB9.6 million and RMB4.8 million, respectively. The actual amount incurred during the Reporting Period was RMB12.0 million.

5. ADC Master Services Agreement

On November 3, 2023, the Company entered into the ADC master services framework agreement with WuXi Biologics (the "**ADC Master Services Agreement**"), pursuant to which the Group will provide certain discovery, research and development and manufacturing services in relation to ADCs to the Remaining WXB Group pursuant to certain ADC CRDMO contracts entered into by the Remaining WXB Group with clients/partners prior to January 2023. The term of ADC Master Services Agreement commenced from November 17, 2023 and expire on December 31, 2025. For details, please refer to the Prospectus.

For the three years ended December 31, 2023, 2024 and 2025, the total amounts payable by the Remaining WXB Group for the ADC CRDMO services under the ADC Master Services Agreement are subject to the annual caps of RMB218.0 million, RMB96.0 million and RMB41.0 million, respectively. The actual amount incurred during the Reporting Period was RMB217.7 million.

6. *General Services Agreement*

On November 3, 2023, the Company entered into the general services framework agreement with WuXi Biologics (the "**General Services Agreement**"), pursuant to which the Remaining WXB Group will provide certain general services in relation to, among others, business development, public relations, human resources, information technology as well as other administrative and general supporting services, to the Company. The term of General Services Agreement commenced from November 17, 2023 and expire on December 31, 2025. For details, please refer to the Prospectus.

For the three years ended December 31, 2023, 2024 and 2025, the total amounts payable by the Group for the general services are subject to the annual caps of RMB15.0 million, RMB11.0 million and RMB9.0 million, respectively. As disclosed in the Company's announcement dated February 9, 2024, during the Reporting Period, the actual services fee paid by the Group to the Remaining WXB Group under the General Services Agreement amounted to RMB17.4 million, which exceeded the proposed annual cap for the year ended December 31, 2023 and the Company is required to re-comply with the relevant requirements under Chapter 14A of the Listing Rules. Please refer to the aforementioned announcement for further details.

7. *WXB Property Lease*

On November 3, 2023, the Company entered into the property lease agreement with WuXi Biologics Co., Ltd. (the "**WXB Property Lease**"), pursuant to the WXB Property Lease, the Group agreed to lease a premise located at Plant No. 2, 11 Xinhui Ring Road, Wuxi with a total gross area of approximately 2,690.5 sq.m. to WuXi Biologics Co., Ltd. as an assembly line for biologics-related consumables. The term of WXB Property Lease commenced from November 17, 2023 and expire on December 31, 2025. For details, please refer to the Prospectus.

For the three years ended December 31, 2023, 2024 and 2025, the total rental amounts payable by WuXi Biologics Co., Ltd. to the Group under the WXB Property Lease are subject to the annual caps of RMB5.0 million, RMB5.0 million and RMB5.0 million, respectively. The actual amount incurred during the Reporting Period was RMB2.7 million.

8. *Payload-Linkers Master Services Agreement*

On November 3, 2023, the Company entered into the payload-linkers master services framework agreement with WuXi AppTec (the "**Payload-Linkers Master Services Agreement**"), pursuant to which the WXAT Group will provide research and development and manufacturing services in relation to payload-linkers and supply the related intermediate products to the Group for use in its ADC CRDMO services. The term of Payload-Linkers Master Services Agreement commenced from November 17, 2023 and expire on December 31, 2025. For details, please refer to the Prospectus.

For the three years ended December 31, 2023, 2024 and 2025, the total amounts payable by the Group to the WXAT Group under the Payload-Linkers Master Services Agreement are subject to the annual caps of RMB206.0 million, RMB182.0 million and RMB168.0 million, respectively. The actual amount incurred during the Reporting Period was RMB148.1 million.

9. *WXAT Property Lease*

On November 3, 2023, the Company entered into the property lease with STA Changzhou (the "**WXAT Property Lease**"), pursuant to which the Company leases from STA Changzhou the premises with a total area of approximately 820 sq.m. located at No. 589 North Yulong Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC, for laboratory and office use in relation to the payload-linkers development. STA Changzhou has also agreed to provide certain general supporting services (e.g., parking, security and cleaning services) in relation to the leased premises to the Company. The term of WXAT Property Lease commenced from November 17, 2023 and expire on December 31, 2024. For details, please refer to the Prospectus.

For the two years ended December 31, 2023 and 2024, the total rentals and service fees payable by the Company to STA Changzhou under the WXAT Property Lease are subject to the annual caps of RMB8.0 million and RMB4.0 million, respectively. The actual amount incurred during the Reporting Period was RMB4.9 million.

During the Reporting Period, pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that such transactions were:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) conducted 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.

Deloitte Touche Tohmatsu, the auditor of the Company, has performed certain agreed-upon audit procedures for the above continuing connected transactions entered into by the Group during the year ended December 31, 2023 according to the Rule 14A.56 to the Listing Rule and issued written confirmation letter therefor, which contained its results and conclusion.

Letter from the independent auditor confirmed with the Board that they have not been made aware anything that may enable them to believe the above continuing connected transactions:

(i) have not been approved by the Board;

(ii) have not followed the pricing policies of the Group in all material aspects, if they involve the goods or services provided by the Group;

(iii) were not conducted in accordance with the relevant agreements for such transactions in all material aspects; and

(iv) have an aggregate transaction amount exceeding the relevant proposed annual cap disclosed in Prospectus, save for the service fees paid by the Group to the Remaining WXB Group of RMB41.4 million and RMB17.4 million, respectively, under the Raw Materials Procurement Services Agreement and the General Services Agreement which have exceeded the relevant proposed annual caps of RMB34.5 million and RMB15.0 million (please refer to the announcement of the Company dated February 9, 2024 for details).

Save as disclosed above, the related party transactions set out in note 36 to the consolidated financial statements do not constitute the connected transactions or continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company during the Reporting Period in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in relation to the relevant connected transactions.

Directors' Report

PRINCIPAL RISKS AND UNCERTAINTIES

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

- The Company is dependent on its customers' spending on and demand for its services. A reduction in customer spending or demand and uncertainties of future advancements of ADCs and other bioconjugates beyond ADC could have a material adverse effect on its business, particularly given that its development is still at a preliminary stage;

- Competition may intensify as the industry grows and attracts more market entrants;

- The Group may face customer attrition as a result of fierce market competition;

- The Company may not be successful in developing new technologies and improving existing technologies to maintain its competitive position;

- The Company's growth strategies and business expansion may not be successful;

- If the Company fails to implement its expansion plan to enhance its manufacturing capabilities as planned, or if such plan fails to achieve expected benefits, the Company's business and prospects could be materially and adversely affected; and

- If the Company is unable to successfully expand or operate in new geographic markets, its growth, results of operations and financial condition could be adversely affected.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

For details of other risks and uncertainties faced by the Group, please refer to the section headed "Risk Factors" in the Prospectus.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment, giving back to the community and achieving sustainable growth. Details of the Group's environmental and social and governance policies and performance are discussed and disclosed in the "Environmental, Social and Governance Report" individually published by the Company on the websites of the Company and Stock Exchange at the same time as the publication of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

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

Interest in Shares or underlying Shares of the Company

Name of Director and Chief Executive	Capacity/Nature of interest	Number of Shares held [(1)]	Approximate percentage of the Company's issued share capital [(2)]
Dr. Jincai Li	Beneficial owner [(3)]	32,455,840 (L)	2.71%
Mr. Jerry Jingwei Zhang	Beneficial owner [(4)]	3,254,016 (L)	0.27%
Mr. Xiaojie Xi	Beneficial owner [(5)]	10,000,000 (L)	0.84%
Dr. Zhisheng Chen	Beneficial owner	3,242 (L)	0.00%
	Founder of a discretionary trust [(6)]	415,636 (L)	0.03%

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) As at December 31, 2023, the number of issued Shares of the Company was 1,197,604,500 Shares.

(3) Interests in options granted pursuant to the 2021 Pre-IPO Share Option Scheme and the 2023 Pre-IPO Share Option Scheme.

(4) Interests in options granted pursuant to the 2023 Pre-IPO Share Option Scheme.

(5) Interests in options granted pursuant to the 2023 Pre-IPO Share Option Scheme.

(6) Shares were held by Dr. Zhisheng Chen through a trust of which Dr. Zhisheng Chen is the settlor (founder) and his spouse and child are the beneficiaries.

Interest in Shares or underlying Shares of the associated corporations

Name of Director and Chief Executive	Name of associated corporation	Capacity/Nature of interest	Equity Interest in the Associated Corporation held [1]	Approximate percentage of the equity interest [9]
Dr. Jincai Li	WuXi Biologics (Cayman) Inc. [2]	Beneficial owner [3]	1,672,653 (L)	0.04%
Mr. Jerry Jingwei Zhang	WuXi Biologics (Cayman) Inc. [2]	Beneficial owner [4]	54,993 (L)	0.00%
Dr. Zhisheng Chen	WuXi Biologics (Cayman) Inc. [2]	Beneficial owner [5]	111,347,521 (L)	2.62%
		Founder of a discretionary trust [6]	10,706,254 (L)	0.25%
Dr. Weichang Zhou	WuXi Biologics (Cayman) Inc. [2]	Beneficial owner [7]	15,264,398 (L)	0.36%
Ms. Ming Shi	WuXi Biologics (Cayman) Inc. [2]	Interest of spouse [8]	3,000 (L)	0.00%

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) WuXi Biologics (Cayman) Inc. is one of the controlling shareholders of the Company, and therefore an "associated corporation" of the Company within the meaning of Part XV of the SFO. As at December 31, 2023, WuXi Biologics (Cayman) Inc. directly or indirectly held 600,000,000 Shares of the Company which accounted for approximately 50.10% of the total issued Shares of the Company.

(3) Interests in restricted share units granted pursuant to the restricted share award scheme adopted by WuXi Biologics (Cayman) Inc. on January 15, 2018 (the "**WXB Restricted Share Award Scheme**") and/or the share award scheme for global partner program adopted by WuXi Biologics (Cayman) Inc. on June 16, 2021 (the "**WXB Global Partner Program Share Scheme**").

(4) Interests in restricted share units granted pursuant to the WXB Restricted Share Award Scheme and/or the WXB Global Partner Program Share Scheme.

(5) Interests in restricted shares granted pursuant to the WXB Restricted Share Award Scheme and/or the WXB Global Partner Program Share Scheme and the interests in options granted pursuant to the pre-IPO share option scheme adopted by WuXi Biologics (Cayman) Inc. on January 5, 2016, and amended on August 10, 2016 (the "**WXB Pre-IPO Share Option Scheme**").

(6) Shares were held by Dr. Zhisheng Chen through a trust of which Dr. Zhisheng Chen is the settlor (founder) and his spouse and child are the beneficiaries.

(7) Interests in restricted shares granted pursuant to the WXB Restricted Share Award Scheme and/or the WXB Global Partner Program Share Scheme and the interests in options granted pursuant to the WXB Pre-IPO Share Option Scheme.

(8) Ms. Ming Shi is deemed to be interested in the 3,000 shares in WuXi Biologics (Cayman) Inc. held by her husband, Mr. Weimin Jiang.

(9) The calculation is based on the total number of 4,257,500,616 shares of WuXi Biologics (Cayman) Inc. in issue as of December 31, 2023.

Save as disclosed above, as at December 31, 2023, to the best knowledge of the Directors or chief executive of the Company, none of the Directors or the chief executive of the Company had interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was 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 and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time since the Listing Date and up to December 31, 2023 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

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

As at December 31, 2023, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Interest in Shares or underlying Shares of the Company

Name of Shareholders	Capacity/Nature of interest	Number of Shares held [1]	Approximate percentage of the Company's issued share capital [2]
WuXi Biologics (Cayman) Inc.	Beneficial owner	600,000,000 (L)	50.10%
WuXi AppTec Co., Ltd. [3]	Interests of controlled corporations	400,000,000 (L)	33.40%
WuXi AppTec (Shanghai) Co., Ltd. (上海藥明康德新藥開發有限公司) [3]	Interests of controlled corporations	400,000,000 (L)	33.40%
Shanghai SynTheAll Pharmaceutical Co., Ltd. (上海合全藥業股份有限公司) [3]	Interests of controlled corporations	400,000,000 (L)	33.40%
STA Pharmaceutical Hong Kong Investment Limited (合全藥業香港投資有限公司) [3]	Beneficial owner	400,000,000 (L)	33.40%

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) As at December 31, 2023, the number of issued Shares of the Company was 1,197,604,500 Shares.

(3) STA Pharmaceutical Hong Kong Investment Limited is directly interested in 400,000,000 shares of the Company.

STA Pharmaceutical Hong Kong Investment Limited is a wholly-owned subsidiary of Shanghai SynTheAll Pharmaceutical Co., Ltd. As far as the Company is aware, 98.56% interests of Shanghai SynTheAll Pharmaceutical Co., Ltd. is owned by WuXi AppTec (Shanghai) Co., Ltd., while WuXi AppTec (Shanghai) Co., Ltd. is a wholly-owned subsidiary of WuXi AppTec Co., Ltd., a company whose H shares are listed on the Stock Exchange (stock code: 2359) and A shares listed on the Shanghai Stock Exchange (stock code: 603259).

As such, under the SFO, each of Shanghai SynTheAll Pharmaceutical Co., Ltd., WuXi AppTec (Shanghai) Co., Ltd. and WuXi AppTec Co., Ltd. is deemed to be interested in the 400,000,000 Shares held by STA Pharmaceutical Hong Kong Investment Limited (through its interest in a controlled corporation).

Save as disclosed above, as at December 31, 2023, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in any Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or the provisions of which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PRE-IPO SHARE OPTION SCHEMES

The Company has adopted the 2021 Pre-IPO Share Option Scheme and the 2023 Pre-IPO Share Option Scheme on November 23, 2021 and March 22, 2023, respectively.

The purpose of the Pre-IPO Share Option Schemes are to enable the Company to grant options to eligible participants as incentives or rewards for their contribution to the Group so as to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group. Participants of the Pre-IPO Share Option Schemes include any full-time or part-time employee, executive, officer, service provider or director (including executive, non-executive or independent non-executive director) of the Company or any member of the Group or any associated company, to be determined at the sole discretion of the Board. No further option would be granted under the Pre-IPO Share Option Schemes on or after the Listing Date. The life of the Pre-IPO Share Option Schemes is 10 years from the date of adoption. The remaining life of the 2021 Pre-IPO Share Option Scheme and the 2023 Pre-IPO Share Option Scheme is approximately 7.6 years and 8.0 years respectively. As at the date of this annual report, there are no more securities available for grant under the Pre-IPO Share Option Schemes.

The maximum aggregate number of options which may be issued under the 2021 Pre-IPO Share Option Scheme shall not exceed 100,000,000 Shares, representing approximately 8.49% of the enlarged issued share capital of the Company immediately upon completion of the Global Offering (assuming that all options granted under the 2021 Pre-IPO Share Option Schemes are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option) have been conditionally granted by the Company under the 2021 Pre-IPO Share Option Schemes and approximately 8.35% of the issued Share as at the date of this report.

The maximum aggregate number of options which may be issued under the 2023 Pre-IPO Share Option Scheme shall not exceed 40,000,000 Shares, representing approximately 3.39% of the enlarged issued share capital of the Company immediately upon completion of the Global Offering (assuming that all options granted under the 2023 Pre-IPO Share Option Schemes are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option) have been conditionally granted by the Company under the 2023 Pre-IPO Share Option Schemes and approximately 3.34% of the issued Share as at the date of this report.

The table below shows details of the movements in the share options granted under the Pre-IPO Share Option Schemes during the Reporting Period.

2021 Pre-IPO Share Option Scheme

Category of Participant	Date of Grant	Exercise Price	Outstanding as at January 1, 2023	Granted during the Reporting Period[1]	Exercised during the Reporting Period	Lapsed/ Forfeited during the Reporting Period	Cancelled during the Reporting Period	Outstanding as at December 31, 2023	Exercise Period[2]
Directors, chief executive or substantial shareholders of the listed issuer, or their respective associates									
Dr. Jincai Li	June 10, 2022	RMB1.658	32,160,000	-	-	-	-	32,160,000	10 years
Sub-total			**32,160,000**	**-**	**-**	**-**	**-**	**32,160,000**	
Other employee participants, related entity participants and service providers									
78 employees	April 1, 2022	RMB1.658	18,369,549	-	-	-	-	18,369,549	10 years
58 employees	August 18, 2022	RMB1.850	8,602,256	-	-	-	277,100	8,325,156	10 years
83 employees	January 6, 2023	RMB1.868	-	18,517,841	-	-	349,300	18,168,541	10 years
Sub-total			**26,971,805**	**18,517,841**	**-**	**-**	**626,400**	**44,863,246**	
Total			**59,131,805**	**18,517,841**	**-**	**-**	**626,400**	**77,023,246**	

Notes:

(1) The options granted are exercisable subject to the vesting schedule of 20% on each of the second, third and fourth anniversaries, and 40% on the fifth anniversary, of the date of grant, save as otherwise determined by the Board at its sole discretion.

(2) The options granted shall be exercisable during a period from the vesting date of the option until the expiry of 10 years from the date of the grant of the option.

2023 Pre-IPO Share Option Scheme

Category of Participant	Date of Grant	Exercise Price	Outstanding as at January 1, 2023[1]	Granted during the Reporting Period[2]	Exercised during the Reporting Period	Lapsed/ Forfeited during the Reporting Period	Cancelled during the Reporting Period	Outstanding as at December 31, 2023	Exercise Period[3]
Directors, chief executive or substantial shareholders of the listed issuer, or their respective associates									
Dr. Jincai Li	August 24, 2023	RMB6.900	–	295,840	–	–	–	295,840	10 years
Mr. Xiaojie Xi	July 6, 2023	RMB4.500	–	10,000,000	–	–	–	10,000,000	10 years
Mr. Jerry Jingwei Zhang	July 6, 2023	RMB4.500	–	3,254,016	–	–	–	3,254,016	10 years
Sub-total			**–**	**13,549,856**	**–**	**–**	**–**	**13,549,856**	
Other employee participants, related entity participants and service providers									
69 employees	July 6, 2023	RMB4.500	–	21,565,553	–	–	1,165,691	20,399,862	10 years
167 employees	August 24, 2023	RMB6.900	–	4,367,241	–	–	86,575	4,280,666	10 years
8 employees	October 30, 2023	RMB6.900	–	1,687,916	–	–	–	1,687,916	10 years
Sub-total			**–**	**27,620,710**	**–**	**–**	**1,252,266**	**26,368,444**	
Total			**–**	**41,170,566**	**–**	**–**	**1,252,266**	**39,918,300**	

Notes:

(1) The 2023 Pre-IPO Share Option Scheme was adopted by the Company on March 22, 2023.

(2) The options granted are exercisable subject to the vesting schedule of 20% on each of the second, third and fourth anniversaries, and 40% on the fifth anniversary, of the date of grant, save as otherwise determined by the Board at its sole discretion.

(3) The options granted shall be exercisable during a period from the vesting date of the option until the expiry of 10 years from the date of the grant of the option.

In accordance with Pre-IPO Share Option Schemes, the total number of Shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. The exercise price was determined by the Board, as it thought fit taking into account, among other things, a participant's contribution to the development and growth of the Group and business performance of the Company.

The options granted under the Pre-IPO Share Option Schemes shall be exercisable during a period from the vesting date of the option until the expiry of 10 years from the date of the grant of the option. Subject to the other terms of the Pre-IPO Share Option Schemes, save as determined otherwise by the Board at its sole discretion, the vesting schedule of the options under the Pre-IPO Share Option Schemes is as follows: (i) 20% of the options shall be vested on the date falling on the second anniversary of the date of grant; (ii) 20% of the options shall be vested on the date falling on the third anniversary of the date of grant; (iii) 20% of the options shall be vested on the date falling on the fourth anniversary of the date of grant; and (iv) 40% of the options shall be vested on the date falling on the fifth anniversary of the date of grant. The number of shares that may be issued in respect of the Pre-IPO Share Option Schemes during the Reporting Period is 116,941,546, representing approximately 11.43% of the weighted average number of Shares in issued for the Reporting Period. The amount payable by each participant to the Company on acceptance of the offer is determined by the Board at the time of grant. Details of the terms and movement of the options granted during the Reporting Period and the impact of options granted under the Pre-IPO Share Option Schemes on the financial statements are set out in the Prospectus and under note 32 to the consolidated financial statements in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2023, the Group's sales to its five largest customers, on a "look-through" basis, accounted for 38.7%, as compared to 34.1% of the Group's total revenue for the year ended December 31, 2022, and the Group's sales to the single largest customer accounted for 13.7%, as compared to 8.9% of the Group's total revenue for the year ended December 31, 2022.

Major Suppliers

For the year ended December 31, 2023, the Group's five largest suppliers, on a "look-through" basis, accounted for 73.2%, as compared to 71.8% of the Group's total purchases for the year ended December 31, 2022. The Group's single largest supplier accounted for 51.8%, as compared to 39.9% of the Group's total purchases for the year ended December 31, 2022.

During the year ended December 31, 2023, none of the Directors or any of their respective close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued Shares of the Company) had any interest in the Group's five largest customers and suppliers other than with respect to the Remaining WXB Group and the WXAT Group (except the Remaining WXB Group and the WXAT Group).

Relationship with Employees, Suppliers and Customers

The Group recognises that employees, suppliers and customers are key to the Group's success. The Group actively maintains a good relationship with employees, suppliers and customers. There was no material and significant dispute between the Group and its employees, suppliers and/or customers during the Reporting Period.

MANAGEMENT CONTRACTS

During the Reporting Period, the Company has not entered into any contract with any individuals, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group.

Directors' Report

DIRECTORS' PERMITTED INDEMINTY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto in accordance with the Articles of Association. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended December 31, 2023, which is still in force.

RESULTS AND DIVIDENDS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income on page 91 of this annual report. The Board does not recommend any payment of final dividend for the year ended December 31, 2023.

FINANCIAL SUMMARY

A summary of the results, and the assets and liabilities of the Group for the prior four financial years are set out on page 6 of this annual report. This summary does not constitute a part of the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2023, and details of the Shares issued during the year ended December 31, 2023 are set out in note 31 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out on pages 94 to 95 in the consolidated statement of changes in equity and note 41 to the consolidated financial statements in this annual report.

Details of the Company's reserves available distribution to the Shareholders as at December 31, 2023 are set out in note 41 to the consolidated financial statements in this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 14 to the consolidated financial statements in this annual report.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company issued 178,446,000 Shares in its Global Offering at HK$20.60 per Share which were listed on the Main Board of the Stock Exchange on November 17, 2023 and subsequently issued 19,158,500 Shares at HK$20.60 per Share upon full exercise of the over-allotment option.

The net proceeds from the Global Offering received by the Company, after deduction of the underwriting fees and commissions and other expenses payable by the Company in connection with the Global Offering, amounted to approximately HK$3,936.9 million. For the period from the Listing Date and up to the date of this annual report, the Company has not utilized any of the net proceeds and the unutilized net proceeds were kept at the bank accounts of the Group as at December 31, 2023.

Details on the applications of the net proceeds from the Global Offering were disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at December 31, 2023, there have been no material changes to the planned applications of the net proceeds. The following table sets out the planned applications of the net proceeds, actual usage up to and remaining amount as at December 31, 2023 as well as the expected timeline for utilization:

Intended use of net proceeds as stated in the Prospectus	Planned applications HK$ million	Amount utilized up to December 31, 2023 HK$ million	Remaining amount as at December 31, 2023 HK$ million	Expected timeline for utilization(1)
Further expansion of the Group's service capability and capacity				
Construction of the Group's facilities at the Singapore site				
Establishment of the facilities at the Singapore site	1,299.2	–	1,299.2	By the end of 2026
Purchase manufacturing and R&D equipment and systems and recruit manufacturing, R&D and management personnel for the operation at the Singapore site	708.7	–	708.7	By the end of 2026
Expansion of the Group's production capacity in China				
Purchase manufacturing and R&D equipment and systems, such as bioreactors, steam sterilizers, capillary electrophoresis instrument and enzyme labeling apparatus, among others	354.3	–	354.3	By the end of 2026
Establishment, maintenance and improvement of the manufacturing plants at the Wuxi site, including building up a kilogram-scale payload-linker production line	275.5	–	275.5	By the end of 2026
Selectively pursue strategic alliances, investment and acquisition opportunities	905.5	–	905.5	By the end of 2026
Working capital and other general corporate purposes	393.7	–	393.7	By the end of 2025
Total	**3,936.9**	**–**	**3,936.9**	

Note:

1. The expected timeline for the usage of the remaining proceeds was prepared based on the best estimate of the Group's future market conditions, which is subject to the current and future development of the market conditions.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to December 31, 2023.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report, no equity-linked agreements were entered into by the Company, or existed during the Reporting Period.

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM will be held on Wednesday, June 12, 2024. A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the qualification as members of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, June 6, 2024 to Wednesday, June 12, 2024, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, nonregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, June 5, 2024.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the principal corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 60 to 84 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended December 31, 2023. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has applied for and the Stock Exchange has approved waiver from strict compliance with Rule 8.08(1) of the Listing Rules. Based on the information that is publicly available to the Company and to the best knowledge of the Board, the Company has maintained the required public float under the Listing Rules and the public float waiver granted by the Stock Exchange at any time during the period from the Listing Date to the date of this annual report.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights under the Articles of Association or the relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

DEBENTURE ISSUED

The Company did not issue any debenture during the Reporting Period.

CONVERTIBLE BONDS

As at the date of this annual report, the Company has not issued any convertible bonds.

BANK LOANS AND OTHER BORROWINGS

As of December 31, 2023, the Group does not have any borrowings.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended December 31, 2023, the Company was not involved in any material litigation, arbitration or administrative proceedings. To the best knowledge of the Directors, there is no material litigation or claim which is pending or threatening against the Company.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Hao Zhou, Dr. Ulf Grawunder and Mr. Stewart John Hen. The chairman of the Audit Committee is Mr. Hao Zhou.

The Audit Committee has reviewed the annual results of the Group for the year ended December 31, 2023. The Audit Committee had, together with the management and external auditor of the Company, reviewed the accounting principles and practices adopted by the Group and discuss the matters in relation to financial reporting procedure, risk management system and internal control system of the group.

AUDITOR

The Shares were listed on the Stock Exchange on November 17, 2023, and the Company has no change in the auditors since the Listing Date.

Deloitte Touche Tohmatsu has appointed as auditor of the Company for the year ended December 31, 2023. Deloitte Touche Tohmatsu has audited the accompanying Financial Statements in the Annual Report which were prepared in accordance with the IFRSs.

Deloitte Touche Tohmatsu is subject to retirement and, being eligible, offers itself for re-appointment. A resolution for re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Dr. Jincai LI
Executive Director and Chief Executive Officer

Hong Kong, March 25, 2024

Corporate Governance Report

The Board is pleased to present the Corporate Governance Report for the year ended December 31, 2023.

CORPORATE GOVERNANCE CULTURE

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that Shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

— satisfactory and sustainable returns to Shareholders;

— that the interests of those who deal with the Company are safeguarded;

— that overall business risk is understood and managed appropriately;

— the delivery of high-quality products and services to the satisfaction of customers; and

— that high standards of ethics are maintained.

CORPORATE GOVERNANCE PRACTICES

The Company was listed on the Stock Exchange on November 17, 2023, while the CG Code as set out in Appendix C1 to the Listing Rules were not applicable to the Company before the Listing Date.

The Company is committed to maintaining high standards of corporate governance.

The Board believes that good 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.

The Company has adopted the principles and code provisions stated in the CG Code as the Company's corporate governance structure, with internal compliance policies in place which set our compliance requirements so as to ensure consistency with the principles and code provisions stated in the CG Code.

The Board is of the view that the Company has complied with the principles and all the applicable code provisions as set out in Part 2 of the CG Code since the Listing Date and up to December 31, 2023. The Board will continue to review and enhance its corporate governance structure and practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Written Guidelines on no less exacting terms than the Model Code as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines since the Listing Date up to December 31, 2023.

In order to ensure strict compliance of the Listing Rules and enhance corporate governance measures, the Company will remind all Directors as to their respective obligations under the Listing Rules in all aspects, including but not limited to the restrictions in dealing with Company's securities. No incident of noncompliance with the Guidelines for Securities Transactions by Employees (員工證券交易管理辦法) by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board with 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 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

During the year ended December 31, 2023, the Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors as follows:

Executive Directors:

Dr. Jincai Li *(Chief Executive Officer)*
Mr. Jerry Jingwei Zhang *(Chief Operating Officer)*
Mr. Xiaojie Xi *(Chief Financial Officer and Company Secretary)*

Non-executive Directors:

Dr. Zhisheng Chen *(Chairman)*
Dr. Weichang Zhou
Ms. Ming Shi

Independent non-executive Directors:

Dr. Ulf Grawunder
Mr. Stewart John Hen
Mr. Hao Zhou

The biographies information of the Directors is set out in the section headed "Directors and Senior Management" on pages 32 to 35 of this annual report.

The Directors do not have financial, business, family or other material/relevant relationships with one another.

Board Meetings and Director's Attendance Records

The Company will adopt the practices of holding Board meetings regularly, at least four Board meetings a year, and at approximately quarterly intervals. A notice will be sent to all the Directors at least 14 days before the convening of a regular Board meeting, so that all the Directors have the opportunity to attend regular meetings and discuss the matters on the agenda.

For other Board meetings and Board Committee meetings, the Company shall give reasonable notice thereof. Notices of meetings have included the agenda and accompanying relevant Board documents and shall be dispatched at least three days before the date of Board meetings or Board Committee meetings. The chairman ensures that the Directors have sufficient time to review relevant documents and be adequately prepared and briefed for attending the Board meetings or Board Committee meetings. When Directors or Board Committee members are unable to attend the meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of meetings shall be kept by the Company Secretary with copies thereof circulated to all Directors for reference and record.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient details about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meetings are/will be sent to the Directors for their consideration within a reasonable time after the meeting is held. Minutes of the Board meetings are open for inspection by all Directors.

As the Company was listed on the Listing Date, during the Reporting Period, no Board meeting was held.

Code provision C.2.7 of the CG Code stipulates that the Chairman of the Board should at least annually hold meetings with the independent non-executive Directors without the presence of other Directors. The Company will hold at least four regular Board meetings for the year ending December 31, 2024.

Code provision C.5.1 of the CG Code stipulates that the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. The chairman of the Board will hold at least one meeting with the independent non-executive Directors without the presence of other Directors for the year ending December 31, 2024.

During the period from the Listing Date and up to the date of this annual report, the Board held two meetings, and the Director's attendance records are as follow:

Names of Directors	Attendance
Executive Directors:	
Dr. Jincai Li	2/2
Mr. Jerry Jingwei Zhang	2/2
Mr. Xiaojie Xi	2/2
Non-executive Directors:	
Dr. Zhisheng Chen	2/2
Dr. Weichang Zhou	2/2
Ms. Ming Shi	2/2
Independent Non-executive Directors:	
Dr. Ulf Grawunder	2/2
Mr. Stewart John Hen	2/2
Mr. Hao Zhou	2/2

Chairman and Chief Executive Officer

Code provision C.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The positions of Chairman and Chief Executive Officer are held by Dr. Zhisheng Chen and Dr. Jincai Li, respectively. Both of them have extensive experience in the industry.

The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board as well as provides overall guidance on the business, strategy and corporate development of the Group. The Chief Executive Officer focused on formulating overall strategic plans, business development and daily operations of the Group.

Independent non-executive Directors

Since the Listing and up to December 31, 2023, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors, among which at least one independent non-executive Director possesses appropriate professional qualifications or accounting or related financial management expertise. The Company has also complied with the requirements of the Rule 3.10A of the Listing Rules relating to appointment of independent non-executive Directors, representing one-third of the members of the Board.

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 is of the view that all independent non-executive Directors are independent.

Board Independence Evaluation

The Company has established a Board Independent Evaluation Mechanism (the "**Board Independence Evaluation Mechanism**") during the Reporting Period, which sets out the processes and procedures to ensure a strong independent element on the Board, so that the Board can obtain independent views and opinions which enable the Board to make independent judgments effectively and better protect the interests of the Shareholders.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence.

The Board has reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism during the Reporting Period and considered it has been implemented effectively.

Appointment and Re-election of Directors

All of the Directors have confirmed that he/she (i) has obtained the legal advice referred to in Rule 3.09D of the Listing Rules on June 30, 2023 (Note), and (ii) understands his/her obligations as a director of a listed issuer under the Listing Rules.

Each of the Directors is engaged on a director's service agreement or letter of appointment for a specific term of three years, which is renewable by mutual consent and subject to the Articles of Association of the Company.

Every Director (including those appointed for a specific term) shall be subject to retirement and re-election by rotation at least once every three years at the annual general meetings of the Company under the Articles of Association of the Company.

The Company's Articles of Association also provides that all Directors appointed to fill a casual vacancy or as an addition to the Board shall be subject to election by shareholders at the next following general meeting of the Company.

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 expenses, for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

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.

Note: September 12, 2023 in the case of Mr. Hao Zhou

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 they remain informed and relevant for their contribution to the Board.

Every newly appointed Director will receive formal, comprehensive and tailored 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. Besides, meetings with senior management of the Company will also be arranged.

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.

Directors are encouraged to participate in continuous professional development seminars and programmes to develop and refresh their knowledge and skills. The Company has also engaged external legal advisers to provide training to Directors on updates of the Listing Rules as well as the latest changes in relevant rules and regulations.

The training records of the Directors for the Reporting Period are summarized as follows:

Directors	Type of Training [Note]
Executive Directors:	
Dr. Jincai Li	C
Mr. Jerry Jingwei Zhang	C
Mr. Xiaojie Xi	C
Non-executive Directors:	
Dr. Zhisheng Chen	C
Dr. Weichang Zhou	C
Ms. Ming Shi	C
Independent Non-executive Directors:	
Dr. Ulf Grawunder	C
Mr. Stewart John Hen	C
Mr. Hao Zhou	C

Note:

Type of Training

A: Attending seminars and/or meetings and/or forums and/or briefings

B: Giving talks in the seminars and/or meetings and/or forums

C: Attending training relevant to the Company's business conducted by lawyers

D: Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

BOARD COMMITTEES

The Board has established five committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee, Strategy Committee, and Environmental, Social and Governance 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 the Audit Committee, Remuneration Committee and Nomination Committee are posted on the websites of the Company and the Stock Exchange and are available to shareholders upon request.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Dr. Ulf Grawunder, Mr. Stewart John Hen and Mr. Hao Zhou. Mr. Hao Zhou is the chairperson 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 Company's financial information, overseeing the Company's financial reporting system, risk management and internal control systems, reviewing and monitoring the effectiveness of the internal audit function, scope of audit and appointment of external auditors, reviewing the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company, and managing business ethics and anti-corruption issues and ensuring that they comply with applicable laws, regulations, regulatory requirements, and international standards.

The Audit Committee is also responsible for performing the functions set out in code provision in Part 2 of the CG Code. These include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of Directors and senior management of the Company; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and reviewing the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual report.

Due to the fact that the Company was listed on the Listing Date, no Audit Committee meeting was held during the Relevant Period.

The Audit Committee held one meeting on March 25, 2024, which was attended by all members of the Audit Committee, namely Dr. Ulf Grawunder, Mr. Stewart John Hen and Mr. Hao Zhou. At the meeting, the Audit Committee reviewed, among other things, the independent auditor's report for 2023, the audited consolidated financial statements and annual results of the Group for the year ended December 31, 2023, the effectiveness of the financial reporting, risk management and internal control systems of the Company, re-appointment of external auditor and non-assurance service approval and concurrence policy.

Remuneration Committee

The Remuneration Committee consists of two independent non-executive Directors and one non-executive Director, namely Dr. Ulf Grawunder, Mr. Stewart John Hen and Ms. Ming Shi. Mr. Ulf Grawunder is the chairperson 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 packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management, establishing a formal and transparent procedure for developing remuneration policy, determine the terms of the specific remuneration package of each Director and the senior management, review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Directors and ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

Pursuant to code provision in Part 2 of the CG Code, details of the remuneration of the senior management by bands for the year ended December 31, 2023 is set out below:

	Number of employees
HK$2,000,001 to HK$5,000,000	2
HK$5,000,001 to HK$10,000,000	1
HK$10,000,001 to HK$15,000,000	2

Due to the fact that the Company was listed on the Listing Date, no Remuneration Committee meeting was held during the Relevant Period.

The Remuneration Committee held one meeting on March 25, 2024, which was attended by all members of the Remuneration Committee, namely Dr. Ulf Grawunder, Mr. Stewart John Hen and Ms. Ming Shi. At the meeting, the Remuneration Committee reviewed, among other things, (i) review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the executive Directors and senior management, (ii) review the Pre-IPO Share Option Schemes and (iii) other remuneration related matters.

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, the prevailing market conditions and the performance of each executive Director. The remuneration for the executive Directors comprises basic salary and discretionary bonus. The remuneration policy for non-executive Directors and independent non-executive Directors is to ensure that non-executive Directors and 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 non-executive Directors and independent non-executive Directors mainly comprises Director's fee which is determined with reference to the prevailing market conditions, their performance, time commitment and responsibilities with the Company. Individual Directors and senior management have not been involved in deciding their own remuneration.

The Remuneration Committee comprehensively reviewed the Group's compensation and share-based incentives policies, the background information on market data (including economic indicators, statistics and the compensation benchmarking), headcount and staff costs and established an attractive policy to ensure the Group is able to recruit and retain top talent. The Committee takes seriously its responsibility to ensure that the executive remuneration practices of the Group drive strong performance, are aligned with the strategy and sustainability of the Group and are appropriate in the context of the external regulatory environment and the expectations of stakeholders.

Nomination Committee

The Nomination Committee consists of one non-executive Director and two independent non-executive Directors, namely Dr. Zhisheng Chen, Dr. Ulf Grawunder and Mr. Hao Zhou. Dr. Zhisheng Chen is the chairperson 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 structure, size and composition (including the skills, knowledge and experience) of the Board, identifying individuals suitably qualified to become Board members and selecting or making recommendation to the Board on the selection of individuals nominated for directorship, making recommendations to the Board on the appointment re-appointment and removal and succession planning of Directors, 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 consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

Due to the fact that the Company was listed on the Listing Date, no Nomination Committee meeting was held during the Relevant Period.

The Nomination Committee held one meeting on March 25, 2024, which was attended by all members of the Nomination Committee namely Dr. Zhisheng Chen, Dr. Ulf Grawunder and Mr. Hao Zhou, and among other things, (i) reviewed the composition of the Board and its committees as well as the skills, knowledge and experiences of the Board members, (ii) made recommendations to the Board on the re-election of retiring Directors, (iii) evaluated the independence of independent non-executive Directors and (iv) reviewed the Board Diversity Policy and the Director nomination policy.

Board Diversity Policy

The Board has adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board and is available on the website of the Company. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

In accordance with the Board Diversity Policy, a truly diverse Board shall include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments will be based on merit while taking into account diversity (including gender diversity).

The Company aims to build and maintain a Board with a diversity of Directors mix, to ensure an appropriate balance in terms of skills, professional experience, educational background, knowledge, expertise, culture, independence, age and gender.

As disclosed in the Prospectus, the Company will continue to implement measures and steps to promote and enhance gender diversity at all levels of the Company. The Company will select potential Board candidates based on merit and his/her potential contribution to our Board while taking into account our board diversity policy and other factors, including but not limited to, his/her integration into our management mindset and business model and any specific requirements from time to time.

In addition, the Company has set a measurable objective that targets to achieve a gender diversity in the composition of our Board by having female representation of 20% of the members of the Board within three years from the Listing Date. To ensure gender diversity of our Board in the long run, the Group will take opportunities to increase the proportion of female members of the Board, identify and select several female individuals with a diverse range of skills, experience and knowledge in different fields from time to time, and maintain a list of such females who possess qualities to become the Board Members, which will be reviewed by the Nomination Committee periodically in order to develop a pipeline of potential successors to the Board to promote gender diversity of the Board.

At present, the Board comprises 8 males and 1 female, the Directors have a balanced mix of knowledge and skills including knowledge and experiences in the areas of business management, biotechnology, life science, finance, investment and accounting. They obtained degrees in various areas including chemistry and bio-engineering, biochemical science, chemical engineering, business administration, international finance and accounting. In addition, the Directors range from 48 years old to 60 years old with experience from different industries and sectors. The Nomination Committee and the Board are of the view that the composition of the Board is consistent with the Board Diversity Policy and effectively implemented.

The Nomination Committee will report annually, in the corporate governance report contained in the Company's annual report, on the Board's composition under diversified perspectives, and monitor the implementation of the Board Diversity Policy.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Gender Diversity

The Company values gender diversity across all levels of the Group. The following tables sets out the gender ratio in the workforce of the Group, including the Board and senior management as at December 31, 2023:

	Female	Male
Board	11.2%	88.8%
Senior Management	20%	80%
Other employees	52%	48%
Overall workforce	52%	48%

The Nomination Committee and the Board are of the view that the current gender diversity is satisfactory.

The Board will continue, taking into account the business needs of the Company and changes from time to time that may affect the Company's business plans, to ensure gender diversity when recruiting staff at senior level, so that the qualified female senior management and potential successors may join the Board in due course to ensure gender diversity of the Board. The Company plans to offer all-rounded trainings to female employees who we consider to have the suitable experience, skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development and will continue to focus on training talent in different gender and providing long-term development opportunities for different gender.

Director Nomination Policy

The Board has adopted a Director Nomination Policy which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors and ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company's business.

The nomination process set out in the Director Nomination Policy is as follows:

a) The Nomination Committee may adopt any procedures and process it deems appropriate in identifying or selecting suitable candidates and evaluating the suitability of the candidates;

b) Upon considering a candidate suitability for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

c) The Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of remuneration package of such selected candidate;

d) The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment, and where a non-executive Director is considered, the Remuneration Committee will make the recommendation to the Board on the proposed remuneration package;

e) The Board will thereafter deliberate and decide the appointment as the case may be; and

f) Upon Directors' appointment, relevant documents shall be duly filed with registration offices and other authorities including but not limited to the Companies Registry of the Cayman Islands and Hong Kong.

The Director Nomination Policy sets out the criteria for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

a) Diversity required for the operation of the Company;

b) Commitment for responsibilities of the Board in respect of available time and relevant interest;

c) Skills, qualification and experiences;

d) Independence from the Company and its subsidiaries;

e) Reputation for integrity;

f) Potential contributions that the individual(s) can bring to the Board; and

g) Plan(s) in place for the orderly succession of the Board.

The Director Nomination Policy also sets out the criteria for evaluation and recommendation to the Board on the re-appointment of retiring Director(s) and the position(s) of the independent non-executive Directors.

Since the Listing Date and up 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.

Strategy committee

The Strategy Committee consists of one executive Director, two non-executive Directors and two independent non-executive Directors, namely Dr. Jincai Li, Dr. Zhisheng Chen, Dr. Weichang Zhou, Dr. Ulf Grawunder and Mr. Stewart John Hen. Dr. Jincai Li is the chairperson of the Strategy Committee.

The principal duties of the Strategy Committee include conducting research and making recommendations to the Board on the Group's mid-term and long-term strategies and their feasibility, conducting research and making recommendations to the Board on the Group's investment plans, major business decisions and investment earnings forecast and evaluating and monitoring the implementation of the strategy, plans and measures adopted by the Strategy Committee.

The Strategy Committee is also responsible of assisting the full Board, in conjunction with management, in addressing the Company's overall mission, vision and strategic direction. Areas of focus included (i) providing to the Board and management, as applicable, input and recommendations with respect to key strategic initiatives and major research and development programs and partnerships, and (ii) assisting management in establishing a strategic planning process, (iii) identifying and addressing organizational challenges and (iv) evaluating strategic alternatives.

Due to the fact that the Company was listed on the Listing Date, no Strategy Committee meeting was held during the Relevant Period.

Environmental, Social and Governance Committee

The Environmental, Social and Governance Committee ("**ESG Committee**") consists of two executive Directors and two non-executive Directors, namely Dr. Jincai Li, Mr. Jerry Jingwei Zhang, Dr. Weichang Zhou and Dr. Ming Shi. Dr. Jincai Li is the chairperson of the Environmental, Social and Governance Committee.

The principal duties of the ESG Committee include but not limited to:

- guiding and formulating the Group's ESG vision, objectives, strategies and structure to ensure that they are in line with the needs of the Group and comply with applicable laws, regulations, regulatory requirements and international standards;

- monitoring the development and implementation of the Group's ESG vision, strategies, policies and governance structure;

- guiding and reviewing the identification and ranking of important ESG issues and assessing ESG targets of the Group on an annual basis;

- reviewing the key ESG trends and related risks and opportunities, and assessing the adequacy and effectiveness of the Group's ESG strategies, policies, action plans, and governance structure accordingly on a regular basis;

- monitoring the channels and means of communication with the Group's stakeholders and ensuring that the relevant policies are in place to effectively promote the relationship between the Group and its stakeholders and protect the Group's reputation; and

- reviewing the Company's ESG report and other ESG related disclosures and making recommendations and reporting on ESG progresses to the Board, so as to promote the continuous improvement of the ESG performance of the Group.

Due to the fact that the Company was listed on the Listing Date, no ESG Committee meeting was held during the Relevant Period.

RISK MANAGEMENT AND INTERNAL CONTROL

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 but 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 Group's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee oversees and manages the overall risks associated with the business operations. It is also responsible for reviewing and overseeing financial reporting procedure, risk management system and internal control system of the Group.

The senior management team is responsible for (i) formulating and updating the Company's risk management policy and objectives; (ii) conducting risk assessment, including the identification, prioritization, measurement and categorization of all major risks that may have potential impacts on the Company's operations; (iii) making action plans to mitigate potential risks; and (iv) reporting material risks to the Audit Committee.

The internal audit department and other relevant functional teams are responsible for implementing Company risk management policy and our day-to-day risk management practices. They are responsible for (i) gathering information about the risks related to Company's operations; (ii) preparing annual reports on risk management and auditing for the review of the chief operating officer and the Audit committee; (iii) proposing and implementing appropriate measures in response to the risk exposure where necessary; and (iv) continuously monitoring major risks related to the operations.

The Company also adopted internal policies against bribery and corruption. The policies strictly prohibit any employee or other personnel acting on our behalf from making, proposing or promising improper payments, directly or indirectly, in any form of cash, physical assets, loans, gifts, luxury trips, entertainment, donations, other valuables or benefits to anyone, including government officials, customers or suppliers, for the purposes of acquiring or securing any business or improper advantage, regardless of whether the Company benefit from such improper payments.

The employees and other personnel acting on our behalf are not allowed to accept or solicit any such improper payments as well. The anti-bribery and anti-corruption policies also prohibit other misconducts, such as misappropriation and embezzlement, fraud or other illegal activities. Employees who violate our anti-bribery and anti-corruption policies are subject to penalties, including termination of employment.

The Company has engaged an internal control consultant to perform certain agreed-upon procedures in connection with the internal control of the Company and its major operating subsidiaries and to report factual findings on the Group's entity-level controls and internal controls of various processes, including financial reporting and disclosure controls, sales, accounts receivable and collection, procurement, accounts payable and payment, fixed assets and assets under construction, human resources and payroll management, cash and treasury management, inventory management, general controls of IT system, taxation management, production and costing, insurance management, research and development and intangible assets.

The Company has adopted a series of internal control policies, measures and procedures designed to provide reasonable assurance for achieving objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. The internal control policies, measures and procedures which the Company implemented or plans to implement are summarized below:

- The Company has formed a compliance office, which is responsible for oversees the overall internal control, corporate governance and legal compliance matters of the Group.

- The compliance office is responsible for formulating and revising internal control policies, measures and procedures to ensure that we maintain sound and effective internal controls and compliance with applicable laws and regulations. It also monitors the implementation of our internal control policies, measures and procedures, and conducts regular compliance audits.

- The Company has adopted various measures and procedures for each aspect of the business operation, such as project management, quality assurance, protection of intellectual property, environmental protection and occupational health and safety. Employees are provided with periodic training about these measures and procedures. The Company also constantly monitored the implementation of those measures and procedures.

- The Company has adopted comprehensive internal control measures for anti-corruption and anti-bribery by (i) providing regular anti-corruption and anti-bribery compliance training for senior management and employees, including daily compliance team meeting, annual compliance training and other ad hoc compliance training sessions, to enhance their knowledge and compliance with applicable law and regulations; (ii) monitoring books, records and accounts with respect to supplier management, tendering and bidding process management and financial payment management to identify any false, misleading or undisclosed entries; (iii) establishing whistle-blowing mechanisms and encouraging all employees, suppliers, customers and other third parties to report suspicious activities and violations of the policies.

- The compliance office has established a system for whistleblowing and handling complaints against the Directors, senior management, employees, customers and other business partners, as well as a mechanism for making independent and fair investigations on reported complaints and taking appropriate actions. The compliance office has also established an online platform through which the employees and those who deal with the Company can report their complaints and concerns in confidence and anonymity, with the Audit Committee and compliance office about possible improprieties in any matters related to the Company. In addition, the Audit Committee and compliance office will evaluate the effectiveness of and potential loopholes in our internal control system based on complaints received to improve our internal control policies, measures and procedures accordingly.

During the year ended December 31, 2023, the Company held one anti-corruption training and briefing to all employees. There were no instances of non-compliance in relation to bribery or corruption.

The Company has developed its disclosure policy which provides a general guide to the Directors, officers, 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.

The risk management and internal control systems are reviewed annually. The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period. The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems of the Group, including the financial, operational and compliance controls, for the Reporting Period, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experience and relevant resources.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors have prepared the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. Appropriate accounting policies have also been used and applied consistently except the adoption of revised standards, amendments to standards and interpretation.

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 independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 89 to 90 of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid or payable to the Company's external auditors of the Group in respect of audit services and non-audit services for the year ended December 31, 2023 amounted to RMB12.3 million and RMB1.1 million, respectively.

An analysis of the remuneration paid to the external auditors of the Group, 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'000**
Audit services	
Auditor of the Company and reporting accountants related to the Company's IPO	11,505
Auditor of subsidiaries of the Company	760
Non-audit services*(Note)*	1,074
Total	13,339

Note: The non-audit services mainly include internal control and tax services.

COMPANY SECRETARY

Mr. Xiaojie Xi is the company secretary of the Company, who is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

The biographies information of the of Mr. Xiaojie Xi is set out in the section headed "Directors and Senior Management" of this annual report.

Mr. Xiaojie Xi has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours relevant professional trainings during the year, to update their skills and knowledge.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices related matters.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening of an Extraordinary General Meeting

Pursuant to article 17 of the Articles of Association of the Company, extraordinary general meetings shall also be convened on the written requisition of one or more members, deposited at the principal office of the Company in Hong Kong, specifying the objects of the meeting and the resolutions to be added to the agenda of the meeting and must be signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than 10% of voting rights, on a one vote per share basis, of the issued Shares which as at that date carries the right of voting at general meetings of the Company.

If the Directors do not within 21 days from the date of the deposit of the Members' requisition duly proceed to convene a general meeting to be held within a further 21 days, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of the requisitionist(s), may themselves convene a general meeting, but any meeting so convened shall be held no later than the day which falls three months after the expiration of the said 21-days period.

Putting Forward Proposals at General Meetings

There are no provisions in the Company's Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a director of the Company, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director" of the Company which is posted on the Company's website.

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 may send their enquiries or requests as mentioned above to the following:

Address: No.520 North Fute Road, Pudong New District, Shanghai, 200131, China
(For the attention of the board secretary office)
Email: wuxixdc.ir@wuxibiologics.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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 endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

As the Company became listed on the Listing Date, no annual general meeting was held during the Reporting Period.

The Company maintains a website at www.wuxixdc.com as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access.

Policies relating to Shareholders

The Company has in place a shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. 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. The Board reviewed the implementation and effectiveness of the shareholders' communication policy during the Reporting Period and the results were satisfactory.

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

(a) Means of Communication

Shareholders' Enquires

Shareholders shall direct their questions about their shareholdings to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited.

Shareholders and the investment community may at any time contact either the Company's Investor Relations Department or the Company Secretary to enquire about the information published by the Company.

Corporate Communication

Corporate communication (as defined in the Listing Rules) shall be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding.

Shareholders have the right to choose the languages (either English and/or Chinese) or means of receipt of the corporate communication (in hard copy or through electronic means).

Shareholders are encouraged to provide, among other things, in particular, their email addresses to the Company through Computershare Hong Kong Investor Services Limited in order to ensure the receipt of the information published by the Company in a timely manner.

Relevant Websites

Disclosures made by the Company pursuant to the Listing Rules are available on the website of the Stock Exchange.

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 uploaded by the Company to the Stock Exchange's website is also posted on the Company's website immediately thereafter. Such information includes announcements, annual report, interim report, circulars and notices of general meetings and other documents.

Shareholders' General Meetings

Shareholders are encouraged to participate in general meetings (including annual general meetings) or to appoint proxies to attend and vote at such meetings for and on their behalf if they are unable to attend such meetings.

Appropriate arrangements for the annual general meetings will be in place to encourage Shareholders' participation.

The process of the Company's general meeting shall be monitored and reviewed on a regular basis, and, if necessary, changes be made to ensure that Shareholders' needs are best served.

Board members, in particular, the chairman of the Board, the chairmen of Board committees or their delegates, appropriate management executives and external auditors and such other person as the Board deems appropriate shall attend annual general meetings to answer Shareholders' questions.

Shareholders are encouraged to attend Shareholders' activities organized by the Company, where information about the Company, including its latest strategic plan, products, services and etc. will be communicated.

Investment Market Communications

The Company, depending on its need, will arrange, without limitation, investor/analysts briefings and group/one-on-one meetings, road shows (both domestic and international) and media interviews, and participate in industry marketing activities and forums for specialists and etc. at least on an annual basis in order to facilitate communication between the Company, Shareholders and the investment community.

(b) Shareholder Privacy

The Company recognizes the importance of Shareholders' privacy and will not disclose Shareholders' information without their consent, unless required by law to do so.

DIVIDEND POLICY

The Company has adopted a policy on payment of dividends which aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration and payment of dividends pursuant to code provision F.1.1 of the CG Code that has become effective from October 30, 2023.

The Board has adopted a dividend policy in which the Company may declare dividends in any currency in general meeting but no dividends shall exceed the amount recommended by the Board, subject to the Cayman Islands Companies Act and the Company's Articles of Association. According to our dividend policy, the dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. Any declaration of dividend is subject to the absolute discretion of the Board, and the amounts of dividends will depend upon, among others, the earnings, cash flow, financial conditions, capital requirements, statutory fund reserve requirements of the Group, and any other conditions that the Board may deem relevant.

In addition, the future dividend payments to the Shareholders will also depend upon the availability of dividends received from the PRC subsidiaries. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles. PRC laws also require PRC enterprises to set aside part of their net profit as statutory reserves before they distribute the net proceeds. These statutory reserves are not available for distribution as cash dividends. In addition, the dividends paid by the PRC subsidiaries are also subject to the withholding tax imposed by the PRC laws.

Based on the financial results for the Reporting Period and the current cash flow and working capital projections, the Board believes that it will not be advisable to make a distribution for the Reporting Period, given considerable requirements of capital expenditure for business expansion. The Company will continue to periodically re-evaluate the dividend policy in light of the financial position and the prevailing economic climate and decide whether it would be in the interest of the Company and its shareholders to make any distribution.

CHANGE IN CONSTITUTIONAL DOCUMENTS

In preparation for the Listing, the Company has conditionally adopted the second amended and restated Memorandum and Articles of Association pursuant to a special resolution passed on October 30, 2023, which became effective on the Listing Date. From the Listing Date to December 31, 2023, the Company has not made any amendments to its Memorandum and Articles of Association.

An up-to-date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and of the Stock Exchange.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF WUXI XDC CAYMAN INC.
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of WuXi XDC Cayman Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 91 to 198, which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("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"), 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 Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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 these matters.

Key audit matters	How our audit addressed the key audit matters
Revenue recognition for Contract Research, Development and Manufacturing Organization ("CRDMO") contracts under fee-for-service ("FFS") basis	
As disclosed in Note 5 to the consolidated financial statements, for the year ended December 31, 2023, revenue of the Group in total was RMB2,124 million, of which RMB2,033 million was derived from CRDMO contracts under FFS basis, representing 96% of total revenue. The management of the Group identified performance obligations in the contracts with customers and recognized revenue when control of the services or goods underlying the particular performance obligation is transferred to customers. To a certain degree the identification and measurement of different activities as distinct performance obligations were subject to management's judgement and interpretation on the terms of the contracts, which gave rise to the risk that revenue could be misstated due to (i) the performance obligation has not been fulfilled and (ii) revenue is recognized in accounting period not coincide with the timing when the control of services or goods is transferred to customers. We determined the assertions of occurrence and cut-off of revenue recognition for CRDMO contracts under FFS basis to be a key audit matter.	Our procedures in relation to the occurrence and cut-off of revenue recognition for CRDMO contracts under FFS basis included: • Understanding key controls related to occurrence and cut-off assertions of revenue recognition for CRDMO contracts under FFS basis and evaluating the design, implementation and operating effectiveness of these controls; • Inquiring the management of the Group and examining the contract terms under FFS basis, on a sampling basis, to evaluate the appropriateness of the identification of each performance obligation and the timing of revenue recognition determined by the management in accordance with IFRS 15 *Revenue from Contracts with Customers*; • Selecting samples from recorded revenue transactions for CRDMO contracts under FFS basis and examining evidence supporting the transfer of control of services or goods; • Testing, on a sampling basis, revenue recognized for CRDMO contracts under FFS basis taking place before and after year-end and tracing to evidence supporting the transfer of control of services or goods to determine that the revenue is recognized in the correct accounting period.

Key audit matters	How our audit addressed the key audit matters
Impairment assessment on goodwill of Payload and Linker Business (as defined in Note 17)	
As set out in Note 17 to the consolidated financial statements, as at December 31, 2023, the carrying amount of goodwill arising from the acquisition of Payload and Linker Business in the previous financial years amounted to RMB215,193,000. The Group has engaged a qualified independent valuation expert to assist the annual impairment assessment of goodwill. Details of the related accounting policies and impairment assessment of goodwill are set out in Notes 3 and 17 to the consolidated financial statements, respectively. The management assessed the impairment of goodwill by estimation of recoverable amount of cash-generating unit ("CGU") based on value-in-use calculation, which requires significant management judgements and forward looking estimates with respect to factors such as revenue growth rates, discount rate, long-term growth rate and the assumptions adopted in the underlying cash flow forecast of the CGU where the goodwill belongs. We identified the goodwill impairment assessment as a key audit matter as the carrying amount is significant and the impairment assessment involved significant management judgements and estimation of uncertainty.	Our procedures in relation to the management's impairment assessment of goodwill included: • Understanding the management process and the key controls on impairment assessment of goodwill and the preparation of cash flow projections, including the key assumptions and inputs; • Evaluating the appropriateness of model used by the management in the value-in-use calculations; • Evaluating the reasonableness of the key assumptions used in the value-in-use calculations, including revenue growth rates, discount rate and long-term growth rate by challenging the assumptions adopted by the management and evaluating the accuracy of historical cash flow forecast by comparing them to actual result; • Evaluating the reasonableness of the sensitivity analysis provided by the management of the Group to assess the extent of impact on the value-in-use; and • Assessing the appropriateness of the disclosures regarding the impairment assessment on goodwill in accordance with IAS 36 *Impairment of Assets*.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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 of the Company 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.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 the independent auditor's report is Leung, David.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 25, 2024

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended December 31, 2023

	NOTES	2023 RMB'000	2022 RMB'000
Revenue	5	**2,123,839**	990,423
Cost of sales		**(1,564,281)**	(729,340)
Gross profit		**559,558**	261,083
Other income	6	**92,305**	26,152
Other gains and losses	7	**(43,871)**	46,672
Impairment losses under expected credit loss model, net of reversal	9	**21,993**	(43,369)
Selling and marketing expenses		**(15,220)**	(8,769)
Administrative expenses		**(123,966)**	(49,210)
Research and development expenses		**(76,867)**	(33,842)
Listing expenses		**(53,578)**	–
Finance costs	8	**(742)**	(2,916)
Profit before tax	9	**359,612**	195,801
Income tax expense	10	**(76,074)**	(40,070)
Profit for the year		**283,538**	155,731
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on hedging instruments designated in cash flow hedges, net of income tax		**1,146**	(3,313)
Exchange differences arising on translation of a foreign operation		**1,125**	–
Other comprehensive income (expense) for the year		**2,271**	(3,313)
Total comprehensive income for the year		**285,809**	152,418
		RMB	RMB
Earnings per share	12		
Basic		**0.28**	0.18
Diluted		**0.26**	0.18

Consolidated Statement of Financial Position

As at December 31, 2023

	NOTES	2023 RMB'000	2022 RMB'000
Non-current Assets			
Property, plant and equipment	14	**1,246,234**	798,575
Investment property	15	**12,409**	12,812
Right-of-use assets	16	**2,145**	5,280
Goodwill	17	**215,193**	215,193
Intangible assets	19	**52,946**	50,648
Deferred tax assets	18	**6,267**	11,540
Other long-term deposits		**147**	–
		1,535,341	1,094,048
Current Assets			
Inventories	21	**46,804**	62,934
Trade and other receivables	23	**956,412**	505,604
Contract assets	24	**31,051**	17,309
Contract costs	22	**113,730**	80,713
Derivative financial assets	29	**–**	799
Financial assets at fair value through profit or loss ("FVTPL")	20	**–**	400,000
Pledged bank deposits	25	**4,400**	–
Bank balances and cash	25	**4,047,583**	334,972
		5,199,980	1,402,331
Current Liabilities			
Trade and other payables	26	**915,386**	773,313
Loans from related parties	27	**–**	71,144
Contract liabilities	28	**328,322**	151,450
Income tax payable		**34,455**	11,506
Lease liabilities	30	**1,247**	4,413
Derivative financial liabilities	29	**–**	2,147
		1,279,410	1,013,973
Net Current Assets		**3,920,570**	388,358
Total Assets less Current Liabilities		**5,455,911**	1,482,406

Consolidated Statement of Financial Position

As at December 31, 2023

	NOTES	2023 RMB'000	2022 RMB'000
Non-current Liability			
Lease liabilities	30	**1,595**	1,627
Net Assets		**5,454,316**	1,480,779
Capital and Reserves			
Share capital	31	**390**	319
Reserves		**5,453,926**	1,480,460
Total Equity		**5,454,316**	1,480,779

The consolidated financial statements on pages 91 to 198 were approved and authorized for issue by the Board of Directors on March 25, 2024 and are signed on its behalf by:

Jincai Li	**Xiaojie Xi**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended December 31, 2023

	Share capital RMB'000	Share premium RMB'000	Group reorganization reserve RMB'000 *(note ii)*	Special reserve RMB'000 *(note iii)*	Other reserve RMB'000 *(note v)*	Statutory reserve RMB'000 *(note i)*	Equity-settled share-based compensation reserve RMB'000 *(note iv)*	Hedging reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2022	-	-	(53,747)	16,608	29,518	6,201	-	2,167	-	20,134	20,881
Profit for the year	-	-	-	-	-	-	-	-	-	155,731	155,731
Other comprehensive expense for the year											
— Fair value adjustments on cash flow hedges	-	-	-	-	-	-	-	(7,974)	-	-	(7,974)
— Recycling from hedging reserve to profits or loss	-	-	-	-	-	-	-	4,661	-	-	4,661
Total comprehensive (expense) income for the year	-	-	-	-	-	-	-	(3,313)	-	155,731	152,418
Transfer to statutory reserve	-	-	-	-	-	6,666	-	-	-	(6,666)	-
Recognition of equity-settled share-based compensation	-	-	-	-	10,876	-	27,750	-	-	-	38,626
Shares fully paid *(Note 31)*	319	1,285,143	-	-	-	-	-	-	-	-	1,285,462
Deemed distribution to Biologics Shanghai *(note iii)*	-	-	-	(16,608)	-	-	-	-	-	-	(16,608)
At December 31, 2022	319	1,285,143	(53,747)	-	40,394	12,867	27,750	(1,146)	-	169,199	1,480,779
Profit for the year	-	-	-	-	-	-	-	-	-	283,538	283,538
Other comprehensive Income ("OCI") for the year											
— Exchange differences arising from translation of a foreign operation	-	-	-	-	-	-	-	-	1,125	-	1,125
— Fair value adjustments on cash flow hedges	-	-	-	-	-	-	-	1,757	-	-	1,757
— Recycling from hedging reserve to profits or loss								(611)			(611)
Total comprehensive income for the year	-	-	-	-	-	-	-	1,146	1,125	283,538	285,809
Transfer to statutory reserve	-	-	-	-	-	34,431	-	-	-	(34,431)	-
Recognition of equity-settled share-based compensation	-	-	-	-	3,192	-	79,344	-	-	-	82,536
Shares issued pursuant to the initial public offering ("IPO") *(Note 31)*	71	3,740,885	-	-	-	-	-	-	-	-	3,740,956
Transaction costs attributable to issue of new shares *(Note 31)*	-	(135,764)	-	-	-	-	-	-	-	-	(135,764)
At December 31, 2023	390	4,890,264	(53,747)	-	43,586	47,298	107,094	-	1,125	418,306	5,454,316

Notes:

i. In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), they are required to transfer 10% of the profit after tax to the statutory reserve until the reserve reaches 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.

ii. Group reorganization reserve represents the capital contribution in WuXi XDC Co., Ltd. ("XDC Wuxi") by the then shareholders before the transfer of XDC Wuxi to the Group, net of consideration paid to the then shareholders; and the administrative service cost borne on behalf of XDC Wuxi by fellow subsidiaries prior to the completion of the group reorganization to rationalize the current group structure.

iii. Historically, part of the Group's principal business, which is discovery and development platform for antibody drug conjugates, was carried out by WuXi Biologics (Shanghai) Co., Ltd. ("Biologics Shanghai"), a wholly-owned subsidiary of WuXi Biologics (Cayman) Inc. ("Biologics Cayman"). As part of the group reorganization, Biologics Shanghai ceased to operate discovery and development service for antibody drug conjugates (the "BCD Business Unit") and transferred to WuXi XDC (Shanghai) Co., Ltd. ("XDC Shanghai") all relevant assets and liabilities related specifically to the discovery and development service. The special reserve reflects reserve related to the operations of the BCD Business Unit; and the deemed distribution to Biologics Shanghai represents the transfer of the funding generated by the BCD Business Unit to Biologics Shanghai upon to the completion of the group reorganization to rationalize the current group structure.

iv. The amount represents the equity-settled share-based compensation in respect of share option for shares of Company granted by the Group to certain directors and employees of the Group for their services rendered to the Group as set out in Note 32.

v. The amount represents the equity-settled share-based compensation in respect of share options for shares and restricted share of Biologics Cayman, the ultimate holding company of the Company granted by Biologics Cayman to certain directors and employees of the Group for their service rendered to the Group as set out in Note 32.

Consolidated Statement of Cash Flows

For the year ended December 31, 2023

	2023 RMB'000	2022 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**359,612**	195,801
Adjustments for:		
Finance costs	**742**	2,916
Interest income from banks	**(47,363)**	(4,612)
Depreciation of property, plant and equipment	**46,412**	17,510
Depreciation of investment property	**403**	403
Depreciation of right-of-use assets	**4,731**	4,959
Amortization of intangible assets	**7,967**	7,940
Impairment losses, net of reversal		
— trade and other receivables	**(22,471)**	43,220
— contract assets	**478**	149
Write down of inventories, net of reversal	**1,232**	120
Write down of contract costs	**1,559**	2,005
Net foreign exchange loss (gain)	**51,997**	(8,162)
Loss on disposal of property, plant and equipment	**405**	65
Share-based compensation expense	**75,153**	38,626
Gain on fair value changes of wealth management products	**(5,543)**	–
Operating cash flows before movements in working capital	**475,314**	300,940
Decrease (increase) in inventories	**14,898**	(39,268)
Increase in trade and other receivables	**(428,102)**	(592,233)
(Increase) decrease in other long-term deposits	**(4,547)**	150
Increase in contract assets	**(14,220)**	(9,776)
Increase in contract costs	**(22,592)**	(45,481)
Increase in trade and other payables	**183,276**	539,030
Increase in contract liabilities	**176,872**	141,587
Cash generated from operations	**380,899**	294,949
Income taxes paid	**(48,054)**	(43,133)
NET CASH FROM OPERATING ACTIVITIES	**332,845**	251,816

Consolidated Statement of Cash Flows

For the year ended December 31, 2023

	2023 RMB'000	2022 RMB'000
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	10,808	1,640
Purchases of property, plant and equipment	(529,360)	(201,382)
Purchases of intangible assets	(10,000)	–
Receipt of interest from banks	47,363	4,612
Payment for transfer of XDC Wuxi to the Group	–	(404,413)
Settlement of consideration payable for acquisition of Payload and Linker Business	–	(280,000)
Settlement of consideration payable for acquisition of BCD Business Unit	(15,587)	–
Placement of financial assets at FVTPL	(1,068,843)	(400,000)
Withdrawal of financial assets at FVTPL	1,474,386	–
NET CASH USED IN INVESTING ACTIVITIES	(91,233)	(1,279,543)
FINANCING ACTIVITIES		
Loans from related parties	28,626	137,255
Repayments of loans from related parties	(99,770)	(88,454)
Repayments of lease liabilities	(4,794)	(5,725)
Interest paid	(315)	(325)
Net proceeds from issue of shares	3,603,962	–
Payment of transaction costs attributable to issue of shares	(5,605)	–
Fully paid of issued shares	–	1,285,462
NET CASH FROM FINANCING ACTIVITIES	3,522,104	1,328,213
TOTAL CASH AND CASH EQUIVALENTS AS AT END OF YEAR, represented by bank balances and cash	4,047,583	334,972
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,763,716	308,647
Effects of exchange rate changes	(51,105)	8,161
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF YEAR	334,972	26,325

1. GENERAL INFORMATION

The Company was established in the Cayman Islands as an exempted company with limited liability on December 14, 2020, and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited on November 17, 2023. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report. In the opinion of the directors of the Company, Biologics Cayman is the Company's ultimate holding company.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in provision of comprehensive contract research, development and manufacturing organization ("CRDMO") services, including discovery, process development and Good Manufacturing Practice ("GMP") manufacturing for bioconjugates, monoclonal antibody intermediates and payload-linkers associated with bioconjugates.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has consistently applied all the new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB"), which are mandatorily effective for the Group's annual period beginning on January 1, 2023 for the preparation of the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Amendments to IFRSs in issue but not yet effective

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

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

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

The directors of the Company anticipate that the application of all amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information

Basis of consolidation

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Goodwill

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

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

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

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

Investments in subsidiaries

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Revenue from contracts with customers

Information about the Group's accounting policies relating to contracts with customers is provided in Note 5, 23, 24 and 28.

Leases

Definition of a lease

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

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

The Group as lessee

Allocation of consideration to components of a contract

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

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Leases (Continued)

The Group as lessee (Continued)

Short-term leases

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

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

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

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Leases (Continued)

The Group as lessee (Continued)

Refundable rental deposits

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

Lease liabilities

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

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Leases (Continued)

The Group as lessee (Continued)

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Leases (Continued)

The Group as a lessor

Classification and measurement of leases

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

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

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Foreign currencies (Continued)

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

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

Research and other grants

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

Research and other grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, research and other grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Employee benefits

Retirement benefit costs

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

Pension obligations

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

Short-term employee benefits

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Share-based payments (Continued)

Modification to the terms and conditions of the share-based payment arrangements

When the terms and conditions of an equity-settled share-based payment arrangement are modified, the Group recognizes, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. In addition, if the Group modifies the vesting conditions (other than a market condition) in a manner that is beneficial to the employees, for example, by reducing the vesting period, the Group takes the modified vesting conditions into consideration over the remaining vesting period.

The incremental fair value granted, if any, is the difference between the fair value of the modified equity instruments and that of the original equity instruments, both estimated as at the date of modification.

If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from modification date until the date when the modified equity instruments are vested, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period.

If the modification reduces the total fair value of the share-based arrangement, or is not otherwise beneficial to the employee, the Group continues to account for the original equity instruments granted as if that modification had not occurred.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Share-based payments (Continued)

Restricted share award payment transactions

For shares granted by the ultimate holding company under WXB Restricted Share Award Scheme and WXB Global Partner Program Share Scheme ("Restricted Shares", as defined in Note 32), the fair value of the employee services received is determined by reference to the fair value of the Restricted Shares granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (other reserve). At the end of each reporting period, the Group revises its estimates of the number of Restricted Shares that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the estimates, if any, is recognized in the profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserve.

Taxation

Income tax expense represents the sum of current and deferred income tax expense.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Taxation (Continued)

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Taxation (Continued)

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

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

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

Property, plant and equipment

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Property, plant and equipment (Continued)

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

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Intangible assets (Continued)

Internally-generated intangible assets — research and development expenditure

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

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

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

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

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

Before the Group recognizes an impairment loss for assets capitalized as contract costs under IFRS 15, the Group assesses and recognizes any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalized as contract costs is recognized to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognized as expenses. The assets capitalized as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Inventories

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

Financial instruments

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets are subsequently measured at FVTPL.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

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

(i) Amortized cost and interest income

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

(ii) Financial assets at FVTPL

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

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

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

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

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

(i) Significant increase in credit risk

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(i) Significant increase in credit risk (Continued)

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower 's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(v) Measurement and recognition of ECL (Continued)

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'Other gains and losses' line item as part of the net foreign exchange gains/(losses); and

- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'Other gains and losses' line item as part of the fair value gain/(losses) of financial assets.

Derecognition of financial assets

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities at amortized cost

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'Other gains and losses' line item in profit or loss as part of net foreign exchange gains/(losses) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk, foreign exchange gains and losses are recognized in other comprehensive income and accumulated in hedging reserve of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

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

Derivative financial instruments

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Hedge accounting

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

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

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

Assessment of hedging relationship and effectiveness

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Hedge accounting (Continued)

Assessment of hedging relationship and effectiveness (Continued)

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

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

Cash flow hedges

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Financial instruments (Continued)

Hedge accounting (Continued)

Discontinuation of hedge accounting

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies

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

Performance obligation determination

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

Key sources of estimation uncertainty

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

Provision of ECL for trade receivables and contract assets

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

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

As at December 31, 2023, the carrying amount of trade receivables is RMB822,208,000 (2022: RMB453,271,000) net of loss allowances of RMB31,211,000 (2022: RMB51,890,000).

As at December 31, 2023, the carrying amount of contract assets is RMB31,051,000 (2022: RMB17,309,000) net of loss allowances of RMB629,000 (2022: RMB151,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the value-in-use. The value-in-use calculation requires the Group to estimate key factors such as revenue growth rates, long-term growth rate as well as the assumptions underlying the future cash flows expected to arise from the cash-generating unit and an appropriate discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss may arise.

As at December 31, 2023, the carrying amount of goodwill was RMB215,193,000 (2022: RMB215,193,000). Details of the recoverable amount calculation are disclosed in Note 17.

Impairment of contract costs

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

As at December 31, 2023, the carrying amounts of contract costs was RMB113,730,000 (2022: RMB80,713,000) (net of write downs of RMB1,559,000 (2022: RMB2,005,000)).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Allowance for inventories

The Group reviews the carrying amount of inventories at each balance sheet date to determine whether the inventories are carried at the lower of cost and realizable value. The Group estimates the net realizable value, based on current market situation and historical experience on similar inventories. Any change in the assumption would increase or decrease the amount of inventories allowance or the related reversal. The change in allowance would affect the Group's loss for the year.

As at December 31, 2023, the carrying amounts of inventories was RMB46,804,000 (2022: RMB62,934,000) (net of write downs of RMB1,715,000 (2022: RMB483,000)).

5. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

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

	2023 RMB'000	2022 RMB'000
Type of services and timing of revenue recognition		
CRDMO services		
A point in time	**2,020,053**	973,929
Over time	**103,786**	16,494
Total	**2,123,839**	990,423

The Group provides services in the discovery, development and commercial manufacturing of ADCs and other bioconjugates. Revenue generated from CRDMO services is derived from the transfer of services and/or goods through contracts under FFS basis and full-time-equivalent (or "FTE") basis. During the year ended December 31, 2023, revenue from CRDMO contracts under FFS basis and FTE basis was RMB2,033,077,000 and RMB90,762,000 (December 31, 2022: RMB974,421,000 and RMB16,002,000), respectively.

5. REVENUE AND SEGMENT INFORMATION (Continued)

(ii) Performance obligations for contracts with customers and revenue recognition policies

CRDMO services

FFS basis

The Group primarily earns revenue by providing CRDMO services to its customers through contracts under FFS basis, the contract duration of which generally ranges from few months to years.

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

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

FTE basis

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

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

The aggregate amount of the transaction price allocated to performance obligations that are unfulfilled (or partially unfulfilled) was RMB4,078 million as at December 31, 2023 (2022: RMB1,495 million). The management of the Group expects the majority of the transaction price allocated to the unfulfilled contracts as of each reporting date during the reporting period will be recognized as revenue within five years from the reporting date.

(iv) Segment information

For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Company) reviews the overall results and financial position of the Group as a whole prepared based on the same accounting policies as set out in Note 3. Accordingly, the Group has only one single operating and reportable segment and no further analysis of this single segment is presented.

Geographical information

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

	2023 RMB'000	2022 RMB'000
Revenue		
— the PRC	**849,071**	566,475
— North America	**726,106**	259,521
— Europe	**459,839**	128,647
— Rest of the world	**88,823**	35,780
	2,123,839	990,423

As at December 31, 2023, other than financial instruments and deferred tax assets, the Group had non-current assets of RMB84,637,000 (2022: RMB1,421,000) located in Singapore. The remaining non-current assets of RMB1,444,290,000 (2022: RMB1,081,087,000) are located in the PRC.

5. REVENUE AND SEGMENT INFORMATION (Continued)

(iv) Segment information (Continued)

Information about major customers

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

	2023 RMB'000	2022 RMB'000
Customer A	**289,750**	375,466
Customer B *(note)*	**226,459**	N/A

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

6. OTHER INCOME

	2023 RMB'000	2022 RMB'000
Rental and other related income *(note i)*	**2,912**	3,831
Sales of materials to related parties	**5,625**	1,930
Interest income from banks *(note ii)*	**47,363**	4,612
Research and other grants *(note iii)*	**36,405**	15,779
	92,305	26,152

Notes:

(i) In respect of the rental income, there are direct operating expenses incurred for investment property that generated rental income amounting to RMB2,051,000 for the year ended December 31, 2023 (2022: RMB2,346,000).

(ii) Interest income derived from bank balances and short-term bank deposits, details of which are disclosed in Note 25.

(iii) Research and other grants of the Group during the year are unconditional with neither future related costs expected to be incurred nor related to any assets of the Group.

7. OTHER GAINS AND LOSSES

	2023 RMB'000	2022 RMB'000
Net foreign exchange (loss) gain	**(49,724)**	46,284
Fair value gain on wealth management products	**5,543**	–
Others	**310**	388
	(43,871)	46,672

8. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest expense on loans from related parties	**427**	2,591
Interest expense on lease liabilities	**315**	325
	742	2,916

9. PROFIT BEFORE TAX

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

	2023 RMB'000	2022 RMB'000
Depreciation for property, plant and equipment	**52,452**	22,808
Depreciation for investment property	**403**	403
Depreciation of right-of-use assets	**4,731**	6,459
Amortization of intangible assets	**7,702**	10,342
	65,288	40,012
Staff cost (including directors' emoluments):		
— Salaries and other benefits	**260,514**	144,213
— Retirement benefits scheme contributions	**28,916**	14,526
— Share-based payment expenses	**82,536**	38,626
	371,966	197,365
Less: Capitalized in contract costs and property, plant and equipment	**(67,364)**	(44,532)
	369,890	192,845
Impairment losses (reversed) recognized, under expected credit loss model, net of reversal		
— Trade receivables	**(20,444)**	41,047
— Contract assets	**478**	149
— Receivables for purchase of raw materials on behalf of customers	**(2,027)**	2,173
	(21,993)	43,369
Auditors' remuneration		
— Auditor of the Company and reporting accountants related to the Company's IPO	**11,505**	–
— Auditor of subsidiaries of the Company	**760**	579
— Non-audit services	**1,074**	13
Write-down of inventories (included in cost of services)	**1,602**	448
Reversals of write-down of inventories (included in cost of services)	**(370)**	(328)
Write-down of contract costs (included in cost of services)	**3,323**	5,815
Reversals of contract costs write-down (included in cost of sales)	**(1,764)**	(3,810)
Loss on disposal of property, plant and equipment	**405**	65
Cost of inventories recognized as an expense	**162,890**	96,460

10. INCOME TAX EXPENSES

	2023 RMB'000	2022 RMB'000
Current tax		
— the PRC Enterprise Income Tax ("EIT")	**63,254**	47,230
— Hong Kong profits tax	**10,945**	2,231
Deferred tax *(Note 18)*	**5,070**	(9,342)
Over provision in prior years	**(3,195)**	(49)
Total income tax expenses	**76,074**	40,070

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

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

A subsidiary of the Group operating in the PRC is accredited as "Technologically Advanced Service Enterprise" and "High and New Technology Enterprise", as such, the subsidiary is entitled to a preferential EIT rate of 15% (2022: 15%).

The directors of the Company are of the view that it is very probable that the subsidiary which is eligible for "Technologically Advanced Service Enterprise" and "High and New Technology Enterprise" tax preference is able to extend its accreditation upon expiry.

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

10. INCOME TAX EXPENSES (Continued)

	2023 RMB'000	2022 RMB'000
Profit before tax	**359,612**	195,801
Tax charge at the EIT rate of 25%	**89,903**	48,950
Tax effect of income that is exempt from taxation	**(2,105)**	(5,536)
Tax effect of expenses not deductible for tax purpose *(note)*	**38,111**	12,612
Over provision in respect of prior years	**(3,195)**	(49)
Effect of super deduction on research and development expenses	**(14,298)**	(2,438)
Tax at concessionary rate	**(27,936)**	(7,646)
Effect of different tax rate of operating entities in other jurisdiction	**(4,406)**	(5,823)
Income tax expenses	**76,074**	40,070

Note: The effect of expenses not deductible for tax purpose include mainly the effect of share-based payment expenses, and tax losses not recognized and not eligible to be carried forward in 2023.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

For the year ended December 31, 2023

	Director's fee RMB'000	Salaries and other benefits RMB'000	Performance-based bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based compensation RMB'000	Total RMB'000
Executive director and chief executive officer:						
Dr. Jincai Li *(note i)*	-	2,070	828	-	10,661	13,559
Executive director and chief operating officer:						
Mr. Jerry Jingwei Zhang *(note iv)*	-	1,389	552	-	1,675	3,616
Executive director and chief financial officer:						
Mr. Xiaojie Xi *(note v)*	-	1,816	733	22	4,548	7,119
Non-executive directors:						
Dr. Zhisheng Chen *(note ii)*	-	-	-	-	-	-
Dr. Weichang Zhou *(note ii)*	-	-	-	-	-	-
Ms. Ming Shi *(note vi)*	-	-	-	-	-	-
Independent non-executive directors:						
Dr. Ulf Grawunder *(note vii)*	136	-	-	-	-	136
Mr. Stewart John Hen *(note vii)*	136	-	-	-	-	136
Mr. Hao Zhou *(note vii)*	136	-	-	-	-	136
Directors:						
Dr. Minzhang Chen *(note iii)*	-	-	-	-	-	-
Dr. Steve Qing Yang *(note iii)*	-	-	-	-	-	-
	408	5,275	2,113	22	16,884	24,702

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

For the year ended December 31, 2022

	Director's fee RMB'000	Salaries and other benefits RMB'000	Performance-based bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based compensation RMB'000	Total RMB'000
Directors:						
Dr. Jincai Li *(note i)*	–	2,013	805	–	11,938	14,756
Dr. Zhisheng Chen *(note ii)*	–	–	–	–	–	–
Dr. Weichang Zhou *(note ii)*	–	–	–	–	–	–
Dr. Minzhang Chen *(note iii)*	–	–	–	–	–	–
Dr. Steve Qing Yang *(note iii)*	–	–	–	–	–	–
	–	2,013	805	–	11,938	14,756

Notes:

(i) Dr. Jincai Li was re-designated from director to executive director with effect from June 30, 2023.

(ii) Dr. Zhisheng Chen and Dr. Weichang Zhou were re-designated from director to non-executive director with effect from June 30, 2023.

(iii) Dr. Minzhang Chen and Dr. Steve Qing Yang were resigned on June 30, 2023.

(iv) Mr. Jerry Jingwei Zhang was appointed as executive director and chief operating officer with effect from June 30, 2023.

(v) Mr. Xiaojie Xi was appointed as executive director and chief financial officer with effect from June 30, 2023.

(vi) Ms. Ming Shi was appointed as non-executive director with effect from June 30, 2023.

(vii) Dr. Ulf Grawunder, Mr. Stewart John Hen and Mr. Hao Zhou were appointed as independent non-executive directors with effect from November 17, 2023.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Five highest paid individuals' emoluments

The five highest paid employees of the Group included three (2022: two) directors of the Company whose emoluments are set out above. The emoluments of the remaining two (2022: three) individuals for the years ended December 31, 2023 and 2022, were as follows:

	2023 RMB'000	2022 RMB'000
Salaries and other benefits	3,380	2,517
Performance-based bonus	952	826
Retirement benefit scheme contributions	–	95
Share-based compensation	4,094	6,327
	8,426	9,765

During the years ended December 31, 2023 and 2022, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company have waived any emoluments during the years ended December 31, 2023 and 2022.

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

	2023	2022
HK$2,500,001 to HK$3,000,000	–	1
HK$3,500,001 to HK$4,000,000	1	–
HK$4,000,001 to HK$4,500,000	1	2
HK$5,000,001 to HK$5,500,000	1	–
HK$5,500,001 to HK$6,000,000	–	1
HK$7,500,001 to HK$8,000,000	1	–
HK$14,500,001 to HK$15,000,000	1	–
HK$17,000,001 to HK$17,500,000	–	1
	5	5

12. EARNINGS PER SHARE

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

	2023 RMB'000	2022 RMB'000
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**283,538**	155,731

	2023	2022
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,022,997,484**	881,643,836
Effect of dilutive potential ordinary shares:		
Share options	**54,975,454**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,077,972,938**	881,643,836

The weighted average number of shares for the purpose of basic earnings per share for the accounting period is calculated based on the assumptions as disclosed in Note 31 having been adjusted retrospectively after taking into account the impact of 400,000,000 shares paid up in April 2022.

The computation of diluted earnings per share for the year ended December 31, 2022 does not assume the exercise of share option scheme granted by the Company since their exercise prices plus fair value of services yet to be rendered are higher than the average share prices of the Company.

13. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended December 31, 2023, nor has any dividend been proposed since the end of the reporting period (2022: nil).

14. PROPERTY, PLANT AND EQUIPMENT

	Machinery RMB'000	Furniture, fixtures and equipment RMB'000	Land and buildings RMB'000	Leasehold and other improvements RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
COST						
As at January 1, 2022	104,794	8,712	100,946	103,548	67,893	385,893
Additions	16,752	5,838	–	–	464,684	487,274
Transfer in from CIP	58,114	9,609	–	35,433	(103,156)	–
Disposals	(577)	(12)	–	–	(1,221)	(1,810)
As at December 31, 2022	179,083	24,147	100,946	138,981	428,200	871,357
Additions	7,248	514	-	-	504,327	512,089
Transfer in from CIP	215,907	15,867	142,791	153,494	(528,059)	-
Disposals	(13,708)	(378)	-	(68)	-	(14,154)
Exchange alignment	-	-	-	-	(765)	(765)
As at December 31, 2023	388,530	40,150	243,737	292,407	403,703	1,368,527
DEPRECIATION						
As at January 1, 2022	(29,115)	(2,160)	(5,363)	(13,571)	–	(50,209)
Provided for the year	(10,499)	(3,655)	(2,916)	(5,738)	–	(22,808)
Eliminated on disposals	228	7	–	–	–	235
As at December 31, 2022	(39,386)	(5,808)	(8,279)	(19,309)	-	(72,782)
Provided for the year	(27,491)	(4,606)	(7,504)	(12,851)	-	(52,452)
Eliminated on disposals	2,675	198	-	68	-	2,941
As at December 31, 2023	(64,202)	(10,216)	(15,783)	(32,092)	-	(122,293)
CARRYING VALUES						
As at December 31, 2022	139,697	18,339	92,667	119,672	428,200	798,575
As at December 31, 2023	324,328	29,934	227,954	260,315	403,703	1,246,234

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

Machinery	9%–23% per annum
Furniture, fixtures and equipment	9%–23% per annum
Land and buildings	3% per annum
Leasehold and other improvements	5%–20% per annum

15. INVESTMENT PROPERTY

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

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

	Leased property RMB'000
COST	
As at December 31, 2022 and 2023	**13,383**
DEPRECIATION	
As at January 1, 2022	(168)
Charge for the year	(403)
As at December 31, 2022	(571)
Charge for the year	(403)
As at December 31, 2023	**(974)**
CARRYING VALUES	
As at December 31, 2022	12,812
As at December 31, 2023	**12,409**

The fair value of the Group's investment property at December 31, 2023 was RMB12,742,000 (2022: RMB13,431,000). The fair value has been arrived at based on a valuation carried out by PricewaterhouseCoopers Consultants (Shenzhen) Limited, Shanghai Branch with registered address of 42/F New Bund Center, 588 Dongyu Road, Pudong New Area, Shanghai 200126, PRC, independent valuer not connected with the Group.

15. INVESTMENT PROPERTY (Continued)

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

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

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

	2023 RMB'000	2022 RMB'000
Carrying amount		
Assembly center	12,409	12,812

	2023 RMB'000	2022 RMB'000
Fair value at Level 2 hierarchy		
Assembly center	12,742	13,431

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

Assembly center	31 years	3.2% per annum

16. RIGHT-OF-USE ASSETS

The Group as lessee

	Leased properties RMB'000
As at December 31, 2023	
Carrying amount	**2,145**
As at December 31, 2022	
Carrying amount	5,280
For the year ended December 31, 2023	
Depreciation charge	**4,731**
For the year ended December 31, 2022	
Depreciation charge	6,459

	2023 RMB'000	2022 RMB'000
Expenses relating to short-term leases	**5,280**	3,122
Total cash outflow for leases	**10,389**	9,172
Additions to right-of-use assets	**1,596**	9,516

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

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

16. RIGHT-OF-USE ASSETS (Continued)

Restrictions or covenants on leases

As at December 31, 2023, lease liabilities of RMB2,842,000 (2022: RMB6,040,000) are recognized with related right-of-use assets of RMB2,145,000 (2022: RMB5,280,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. The Group is restricted from assigning and subleasing the leased assets outside the Group.

17. GOODWILL

As at December 31, 2023, goodwill amounting to RMB215,193,000 was arising from acquisition in previous years, of the payload and linker business (the "Payload and Linker Business").

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

For the purposes of impairment testing, the acquired Payload and Linker Business is allocated as an individual cash-generating unit (the "Payload and Linker Unit"). The recoverable amount of the Payload and Linker Unit has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and pre-tax discount rate of 17% (2022: 17%). Pre-tax discount rate applied reflects the current market assessments of the time value of money and the risks specific to the Payload and Linker Unit. The expected annual revenue growth rates up to the financial year of 2028 range from 10% to 45% (2022: 5% to 30%). Other key assumptions for the value-in-use calculations related to the estimation of cash inflows/outflows which include revenue growth rate, such estimation is based on the Payload and Linker Unit's past performance and management's expectation for the market development.

The cash flows beyond the 5-year period are extrapolated using a steady 2% long-term growth rate (2022: 3%). Long-term growth rate based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

The recoverable amount is significantly above the carrying amount of the Payload and Linker Business, management of the Group believes that any reasonably possible change in any of these assumptions would not result in impairment.

18. DEFERRED TAXATION

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

	2023 RMB'000	2022 RMB'000
Deferred tax assets	**6,267**	11,540
Deferred tax liabilities	**–**	–
	6,267	11,540

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

	Allowance on inventories and credit losses RMB'000	Lease liability under IFRS 16 RMB'000	Right-of-use assets under IFRS 16 RMB'000	Derivative financial instruments RMB'000	Accrued expenses RMB'000	Total RMB'000
As at January 1, 2022	1,682	563	(556)	(382)	306	1,613
Credited (charged) to profit or loss	8,551	592	(441)	–	640	9,342
Credited to OCI	–	–	–	585	–	585
As at December 31, 2022	**10,233**	**1,155**	**(997)**	**203**	**946**	**11,540**
(Charged) credited to profit or loss	**(4,578)**	**(614)**	**563**	**–**	**(441)**	**(5,070)**
(Charged) to OCI	**–**	**–**	**–**	**(203)**	**–**	**(203)**
As at December 31, 2023	**5,655**	**541**	**(434)**	**–**	**505**	**6,267**

As at December 31, 2023 and 2022, the Group does not have any unused tax losses available to offset against future profits and accordingly does not recognize any deferred tax asset.

19. INTANGIBLE ASSETS

	Technology RMB'000	License RMB'000 *(Note i)*	Customer relationship RMB'000 *(Note ii)*	Total RMB'000
COST				
As at December 31, 2022	5,438	–	58,400	63,838
Additions	–	10,000	–	10,000
As at December 31, 2023	**5,438**	**10,000**	**58,400**	**73,838**
AMORTIZATION				
As at January 1, 2022	(1,298)	–	(1,550)	(2,848)
Charge for the year	(4,140)	–	(6,202)	(10,342)
As at December 31, 2022	(5,438)	–	(7,752)	(13,190)
Charge for the year	–	(1,500)	(6,202)	(7,702)
As at December 31, 2023	**(5,438)**	**(1,500)**	**(13,954)**	**(20,892)**
CARRYING VALUES				
As at December 31, 2022	–	–	50,648	50,648
As at December 31, 2023	**–**	**8,500**	**44,446**	**52,946**

Notes:

(i) License fee paid is amortized on a straight-line basis over its estimated useful life of 5 years which represents the average duration of contracts benefit from the license estimated by the management of the Group.

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

20. FINANCIAL ASSETS AT FVTPL

	2023 **RMB'000**	2022 RMB'000
Current asset		
Wealth management products *(note)*	**–**	400,000

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

As at December 31, 2023, the Group has redeemed all the wealth management products.

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

21. INVENTORIES

	2023 **RMB'000**	2022 RMB'000
Raw material and consumables	**46,804**	62,934

Raw materials and consumables are net of a write-down of approximately RMB1,715,000 for the year ended December 31, 2023 (2022: RMB483,000).

22. CONTRACT COSTS

	2023 **RMB'000**	2022 RMB'000
Costs to fulfill contracts	**113,730**	80,713

Contract costs are net of a write-down of approximately RMB1,559,000 for the year ended December 31, 2023 (2022: RMB2,005,000).

23. TRADE AND OTHER RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables from contracts with customers		
— Related parties	**85,991**	134,666
Less: allowance for credit losses	**(266)**	(13,520)
— Third parties	**767,428**	370,495
Less: allowance for credit losses	**(30,945)**	(38,370)
	822,208	453,271
Receivables for purchase of raw materials on behalf of customers	**13,601**	5,246
Less: allowance for credit losses	**(148)**	(2,175)
	13,453	3,071
Advances to suppliers		
— Related parties	**82**	–
— Third parties	**1,433**	937
Other receivables		
— Related parties	**1,864**	2,312
— Third parties	**6,334**	581
Prepayments	**122**	214
Value added tax recoverable	**110,916**	45,218
Total trade and other receivables	**956,412**	505,604

As at January 1, 2022, trade receivables from contracts with customers amounted to RMB89,193,000.

Details of the trade and other receivables due from related parties are set out in Note 36(b).

23. TRADE AND OTHER RECEIVABLES (Continued)

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

	2023 RMB'000	2022 RMB'000
Not past due	**424,828**	273,897
Overdue:		
— Within 90 days	**214,296**	141,332
— 91 days to 1 year	**172,261**	36,301
— Over 1 year	**10,823**	1,741
	822,208	453,271

As at December 31, 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB397,380,000 (2022: RMB179,374,000), which are past due as at the reporting date. Out of the past due balances, RMB183,084,000 (2022: RMB38,042,000) has been past due 90 days or more and is not considered as credit impaired as the management of the Group believed that the amounts will be settled by the customers based on the customers' committed promise and historical experience. The Group does not hold any collateral over these balances.

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

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

	2023 RMB'000	2022 RMB'000
United States dollar ("US$")	**551,061**	364,454
Euro ("EUR")	**485**	17,861

24. CONTRACT ASSETS

	2023 RMB'000	2022 RMB'000
Contract assets		
— Related parties	7,685	7,685
Less: allowance for credit losses	(229)	(44)
— Third parties	23,995	9,775
Less: allowance for credit losses	(400)	(107)
	31,051	17,309

Contract assets that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2023 RMB'000	2022 RMB'000
US$	3,327	–

As at January 1, 2022, contract assets amounted to RMB10,717,000 (net of allowance for credit losses of RMB2,000).

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

24. CONTRACT ASSETS (Continued)

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

— Revenue from CRDMO contracts under FFS basis

The Group's contracts under FFS basis include payment schedules which require stage payments over the service period once certain specified milestones are reached or control of goods are transferred to customers. The Group requires certain customers to pay 30%–50% of total contract value as project start-up cost as part of its credit risk management policies.

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

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

25. BANK BALANCES AND CASH

Bank balances and cash of the Group comprised of cash and short-term bank deposits with an original maturity of three months or less. The short-term bank deposits are carried interests at market rates which ranged from 0% to 5.68% per annum for the year ended December 31, 2023 (2022: 0% to 2.03%).

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

	2023 RMB'000	2022 RMB'000
HK$	**3,582,422**	5
US$	**395,448**	184,656
EUR	**10,579**	5,540
Singapore Dollar ("SGD")	**3**	–

26. TRADE AND OTHER PAYABLES

	2023 RMB'000	2022 RMB'000
Trade payables		
— Related parties	**580,333**	457,295
— Third parties	**40,118**	23,537
	620,451	480,832
Other payables and accruals		
— Related parties	**97,447**	107,346
— Third parties	**23,121**	25,060
Payable for purchase of property, plant and equipment		
— Related parties	**1,507**	1,807
— Third parties	**97,961**	116,870
Consideration payable to a related party for acquisition of BCD Business Unit	**–**	15,587
Salary and bonus payables	**56,624**	24,589
Accrued listing expenses and share issue cost	**15,513**	–
Other taxes payable	**2,762**	1,222
Trade and other payables	**915,386**	773,313

Details of the trade and other payables due to related parties are set out in Note 36(b).

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

	2023 RMB'000	2022 RMB'000
Within 90 days	**596,519**	432,756
91 days to 1 year	**22,910**	47,853
1 to 2 years	**867**	223
Over 2 years	**155**	–
	620,451	480,832

26. TRADE AND OTHER PAYABLES (Continued)

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

	2023 RMB'000	2022 RMB'000
US$	**47,030**	206,525
EUR	**1,869**	740
Swiss Franc ("CHF")	**20**	483

27. LOANS FROM RELATED PARTIES

	2023 RMB'000	2022 RMB'000
Loan from ultimate holding company:		
Biologics Cayman	**–**	300
Loans from fellow subsidiaries:		
WuXi Biologics Co., Ltd ("WABIO")	**–**	844
WuXi Biologics Biosafety Testing (Suzhou) Co., Ltd. ("WADT")	**–**	70,000
	–	71,144

The loans from related parties are non-trade related, unsecured, repayable on demand and carry interest at the fixed rate of nil, ranging from 1.86% to 4.58% per annum for the year ended December 31, 2022. The loans had been repaid in full during the year ended December 31, 2023.

28. CONTRACT LIABILITIES

	2023 RMB'000	2022 RMB'000
Current		
Contract liabilities		
— Third parties	328,322	151,450

As at January 1, 2022, contract liabilities amounted to RMB10,020,000.

Revenue of RMB136,369,000 was recognized during the year ended December 31, 2023 (2022: RMB10,020,000) that were included in the contract liabilities at the beginning of the relevant reporting periods.

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

— Revenue from CRDMO contracts under FFS basis

The Group normally requires certain customers to pay 30% to 50% of total contract value as down payment as project start-up cost as part of its credit risk management policies. The advance payment schemes result in contract liabilities which represent the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

29. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Assets		Liabilities	
	December 31, 2023 RMB'000	December 31, 2022 RMB'000	December 31, 2023 RMB'000	December 31, 2022 RMB'000
Derivatives under hedge accounting				
Cash flow hedges				
— Foreign currency forward	–	799	–	2,147

Derivatives under hedge accounting

As at December 31, 2022, in view of the management of the Group, the foreign currency forward contracts are highly effective hedging instruments and qualified as cash flow hedges.

29. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

Derivatives under hedge accounting (Continued)

For the years ended December 31, 2023 and 2022, certain subsidiaries of the Group entered into foreign currency forward contracts with a fellow subsidiary of Biologics Cayman, which is acting as corporate treasury function within the WuXi Biologics group (as defined in Note 36) for entering into hedging contracts with external banks, to minimize the exposure to fluctuations in foreign currency exchange rate arising from anticipated foreign currency sales transactions, in particular, the exchange rate between US$ and RMB for foreign currency sales transactions which is designated as cash flow hedges. The major terms of these contracts on a net settlement basis as at December 31, 2022 presented are as follows:

The foreign currency forward contract had been settled during the year ended December 31, 2023.

As at December 31, 2022

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

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

During the year ended December 31, 2023, the aggregated amount of previously recognized in comprehensive income and accumulated in equity of gains of RMB611,000 (2022: losses of RMB4,661,000) was reclassified to revenue when the hedged item affects profit or loss.

30. LEASE LIABILITIES

	2023 RMB'000	2022 RMB'000
Lease liabilities payable:		
Within one year	**1,247**	4,413
Within a period of more than one year but not exceeding two years	**594**	1,627
Within a period of more than two year but not exceeding five years	**1,001**	–
	2,842	6,040
Less: amounts due within one year shown under current liabilities	**(1,247)**	(4,413)
Amounts shown under non-current liabilities	**1,595**	1,627

For the year ended December 31, 2023, the weighted average incremental borrowing rate applied to lease liabilities is 4.90% (2022: 4.90%).

31. SHARE CAPITAL

AUTHORIZED:

	Number of shares	Par value US$	Authorized share capital US$
As at January 1, 2022, December 31, 2022	1,000,000,000	0.00005	50,000
Creation of new shares *(note iv)*	9,000,000,000	0.00005	450,000
As at December 31, 2023	**10,000,000,000**	**0.00005**	**500,000**

31. SHARE CAPITAL (Continued)

ISSUED AND FULLY PAID:

	Number of shares	Par value	Share capital		Share premium
				RMB'000	RMB'000
		US$	US$	equivalent	equivalent
At January 1, 2022	1,000,000,000	0.00005	5	*	–
Cancellation of shares *(note i)*	(400,000,000)	0.00005	N/A	N/A	N/A
Re-issue of shares *(note i)*	400,000,000	0.00005	N/A	N/A	N/A
Shares fully paid *(note ii)*	N/A	N/A	49,995	319	1,285,143
At December 31, 2022	1,000,000,000	0.00005	50,000	319	1,285,143
Shares issued pursuant to the IPO *(note iii)*	197,604,500	0.00005	9,880	71	3,605,121
At December 31, 2023	**1,197,604,500**	**0.00005**	**59,880**	**390**	**4,890,264**

Notes:

i. The 400,000,000 shares held by STA HK were cancelled on January 28, 2022, and re-issued on June 8, 2022, respectively.

ii. On September 29, 2021, additional 599,940,000 shares and 399,960,000 shares were issued and allotted at par to Biologics Cayman and STA HK, respectively. After the subdivision and the second allotment of shares, Biologics Cayman and STA HK held 600,000,000 and 400,000,000 shares, representing 60% and 40% shareholding in the Company, respectively. The total cash consideration for these shares amounted to approximately RMB1,285,462,000 was paid up in April 2022, to which RMB1,285,143,000 was recognized in share premium.

iii. On November 17, 2023, 178,446,000 ordinary shares were issued at an offer price of HK$20.60 per share pursuant to the IPO; and on December 8, 2023, 19,158,500 shares in respect of the over-allotment option are fully exercised. Gross proceeds from the issuance of these shares and the exercise of over-allotment option amounted to approximately HK$4,071 million (equivalent to approximately RMB3,741 million). After netting of share issuance cost of approximately RMB136 million, approximately RMB71,000 and RMB3,605 million are credited to the share capital and share premium of the Company, respectively.

iv. On June 30, 2023, the authorized share capital of the Company was increased from 1,000,000,000 ordinary shares to 10,000,000,000 ordinary shares by the creation of 9,000,000,000 ordinary shares at par value of US$0.00005 each.

* Amount below RMB1,000.

32. SHARE-BASED COMPENSATION

Equity instruments granted by Biologics Cayman to employees of the Group

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

(a) WXB Pre-IPO Share Option Scheme

Biologics Cayman's Pre-IPO Share Option Scheme was adopted pursuant to resolutions passed on January 5, 2016 for the primary purpose of attracting, retaining and motivating employees and directors. Under the WXB Pre-IPO Share Option Scheme, the directors of the Biologics Cayman may grant up to 144,600,000 (before the effect of the Share Subdivision[1]) share options to eligible employees, including the directors of Biologics Cayman and its subsidiaries, to subscribe for shares in Biologics Cayman. Grantee accepting an option grant offered by Biologics Cayman has to sign an acceptance letter and pay to Biologics Cayman an amount of HK$1.00 (before the effect of the Share Subdivision) as consideration for the grant.

All the share options granted under WXB Pre-IPO Share-Option Scheme have been fully vested during the year ended December 31, 2022. For the year ended December 31, 2022, the Group recognized total expense of RMB59,000 in relation to share options granted by Biologics Cayman under the WXB Pre-IPO Share Option Scheme.

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

32. SHARE-BASED COMPENSATION (Continued)

Equity instruments granted by Biologics Cayman to employees of the Group (Continued)

(b) *WXB Restricted Share Award Scheme*

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

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

The Group recognized total expense of approximately RMB2,801,000 for the year ended December 31, 2023 (2022: RMB10,505,000) in relation to restricted shares granted by Biologics Cayman under the WXB Restricted Share Award Scheme.

32. SHARE-BASED COMPENSATION (Continued)

Equity instruments granted by Biologics Cayman to employees of the Group (Continued)

(c) WXB Global Partner Program Share Scheme

On June 16, 2021, Biologics Cayman adopted a global partner program share scheme to further reward and incentivize the Group of Biologics Cayman's top employees and attract key talents (the "Selected Participants under WXB Global Partner Program Share Scheme") to ensure the continuous business development and growth of Biologics Cayman and to further align the interests of the top employees and the shareholders of Biologics Cayman. The Selected Participants under WXB Global Partner Program Share Scheme who have significant contributions to the Group of Biologics Cayman's business development and growth will be granted restricted shares under the WXB Global Partner Program Share Scheme. The number of restricted shares to be granted will be determined based on various performance-related considerations, such as the fulfilment by the respective Selected Participants under WXB Global Partner Program Share Scheme of their individual performance targets as well as the overall business performance of the Group of Biologics Cayman as a whole. The total number of the restricted shares underlying all grants made pursuant to the WXB Global Partner Program Share Scheme shall not exceed three percent of the total number of shares of Biologics Cayman in issue as at the adoption date (i.e. 126,982,689 shares).

The Group recognized total expense of approximately RMB391,000 for the year ended December 31, 2023 (2022: RMB312,000) in relation to restricted shares granted by Biologics Cayman under the WXB Global Partner Program Share Scheme.

32. SHARE-BASED COMPENSATION (Continued)

Equity instruments granted by the Company to employees of the Group

(a) 2021 Pre-IPO Share Option Scheme

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

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

Batch under 2021 Pre-IPO Share Option Scheme	Vesting Date of 2021 Pre-IPO Share Option Scheme
Twenty percent (20%) of the restricted shares so granted	Second (2nd) anniversary of the grant date for a Company's share option
Twenty percent (20%) of the restricted shares so granted	Third (3rd) anniversary of the grant date for a Company's share option
Twenty percent (20%) of the restricted shares so granted	Fourth (4th) anniversary of the grant date for a Company's share option
Forty percent (40%) of the restricted shares so granted	Fifth (5th) anniversary of the grant date for a Company's share option

32. SHARE-BASED COMPENSATION (Continued)

Equity instruments granted by the Company to employees of the Group (Continued)

(b) 2023 Pre-IPO Share Option Scheme

On March 22, 2023, the Company adopted the 2023 Pre-IPO Share Option Scheme for the purpose to enable the Company to grant options to eligible participants as incentives or rewards for their contribution to the Group so as to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group. Eligible participants for the 2023 Pre-IPO Share Option Scheme include any full-time or part-time employee, executive, officer or director (including executive, non-executive or independent non-executive director) of the Company or any member of the Group or any associated company, to be determined at the sole discretion of the Board. The maximum number of our Shares which may be issued upon exercise of all options to be granted under the 2023 Pre-IPO Share Option Scheme and other share option schemes of the Company shall not in aggregate exceed 4% of the total number of our Shares in issue as at the adoption date of the 2023 Pre-IPO Share Option Scheme (the "2023 Scheme Mandate Limit").Options lapsed in accordance with the terms of the 2023 Pre-IPO Share Option Scheme will not be counted for the purpose of calculating the 2023 Scheme Mandate Limit.

The option granted under the 2023 Pre-IPO Share Option Scheme can only be vested in the following manners (each date on which any portion of options granted shall be vested is hereinafter referred to as a "Vesting Date of 2023 Pre-IPO Share Option Scheme" and each batch on which any portion of options granted shall be vested is hereinafter referred to as a "Batch under 2023 Pre-IPO Share Option Scheme")

Batch under 2023 Pre-IPO Share Option Scheme	Vesting Date of 2023 Pre-IPO Share Option Scheme
Twenty percent (20%) of the restricted shares so granted	Second (2nd) anniversary of the grant date for a Company's share option
Twenty percent (20%) of the restricted shares so granted	Third (3rd) anniversary of the grant date for a Company's share option
Twenty percent (20%) of the restricted shares so granted	Fourth (4th) anniversary of the grant date for a Company's share option
Forty percent (40%) of the restricted shares so granted	Fifth (5th) anniversary of the grant date for a Company's share option

32. SHARE-BASED COMPENSATION (Continued)

Equity instruments granted by the Company to employees of the Group (Continued)

(c) Movements of 2021 and 2023 Pre-IPO Share Option Schemes

Set out below are details of the movements of the outstanding share options granted under the 2021 and 2023 Pre-IPO Share Option Scheme during the year ended December 31, 2023 and 2022:

Batch	Outstanding as at January 1, 2023	Granted	Exercised	Forfeited	Outstanding as at December 31, 2023
Employee					
April 1, 2022	18,369,549	–	–	–	18,369,549
August 18, 2022	8,602,256	–	–	277,100	8,325,156
January 6, 2023	–	18,517,841	–	349,300	18,168,541
July 6, 2023	–	21,565,553	–	1,165,691	20,399,862
August 24, 2023	–	4,367,241	–	86,575	4,280,666
October 30, 2023	–	1,687,916	–	–	1,687,916
	26,971,805	46,138,551	–	1,878,666	71,231,690
Director					
June 10, 2022	32,160,000	–	–	–	32,160,000
July 6, 2023	–	13,254,016	–	–	13,254,016
August 24, 2023	–	295,840	–	–	295,840
	32,160,000	13,549,856	–	–	45,709,856
	59,131,805	59,688,407	–	1,878,666	116,941,546
Exercisable at the end of the period	–				–
Weighted average exercise price (RMB)	1.6859	3.9388	–	3.7304	2.8030

32. SHARE-BASED COMPENSATION (Continued)

Equity instruments granted by the Company to employees of the Group (Continued)

(c) Movements of 2021 and 2023 Pre-IPO Share Option Schemes (Continued)

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

32. SHARE-BASED COMPENSATION (Continued)

Equity instruments granted by the Company to employees of the Group (Continued)

The estimated fair value of the share options at the date of grant were approximately RMB20,602,000, RMB34,331,000, RMB8,984,000, RMB17,330,000, RMB105,326,000, RMB10,766,000 and 28,567,000 for the April 1, 2022, June 10, 2022, August 18, 2022, January 6, 2023, July 6, 2023, August 24, 2023 and October 30, 2023 option batch, respectively. The fair value was calculated using the Binomial model. The major inputs into the model are as follows:

Grant date	April 1, 2022	June 10, 2022	August 18, 2022	January 6, 2023	July 6, 2023	August 24, 2023	October 30, 2023
Equity value per share (RMB)	1.658	1.658	1.845	1.865	5.516	5.516	16.704
Exercise price (RMB)	1.658	1.658	1.850	1.868	4.500	6.900	6.900
Expected volatility	47.6%	47.9%	47.9%	43.6%	41.3%	41.2%	41.1%
Expected life (years)	10	10	10	10	10	10	10
Risk-free interest rate	2.81%	2.81%	2.78%	2.89%	2.69%	2.55%	2.72%
Forfeiture rate	3.70%	–	3.70%	3.70%	8.00%	8.00%	8.00%

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

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

The Group recognized total expense of approximately RMB79,344,000 for the year ended December 31, 2023 (2022: RMB27,750,000) in relation to options granted by the Company under the Pre-IPO Share Option Scheme.

33. FINANCIAL INSTRUMENTS

a. Capital risk management

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

The capital structure of the Group consists of net debt, which includes loans from related parties and lease liabilities disclosed in Notes 27 and 30 respectively, net of cash and cash equivalents, and equity attributable to the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the issue of new shares and bank borrowing, if necessary.

b. Categories of financial instruments

	2023 RMB'000	2022 RMB'000
Financial assets		
Financial assets at amortized cost	**4,895,989**	794,207
Financial assets at FVTPL	**–**	400,000
Derivative financial assets	**–**	799
Financial liabilities		
Financial liabilities at amortized cost	**819,151**	777,891
Derivative financial liabilities	**–**	2,147

c. Financial risk management objectives and policies

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

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Market risk

The Group's activities expose it primarily to currency risk. There had been no change in the Group's exposure to this risk or the manner in which it managed and measured the risks during the year ended December 31, 2023.

Currency risk

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

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

	2023 RMB'000	2022 RMB'000
Assets		
US$	**949,836**	549,110
EUR	**11,064**	23,401
HK$	**3,582,422**	5
SGD	**3**	–
Liabilities		
US$	**47,030**	206,525
EUR	**1,869**	740
CHF	**20**	483

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Market risk (Continued)

Sensitivity analysis

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

	2023 **RMB'000**	2022 RMB'000
Impact on profit or loss sensitivity:		
US$	**(35,363)**	(13,624)
HK$	**(140,326)**	–
EUR	**(360)**	(901)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances, pledged bank deposits and lease liabilities (see Notes 25 and 30 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. As the management considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

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

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

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past due amounts	Lifetime ECL-not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date in full	Lifetime ECL-not credit-impaired	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL-not credit-impaired	Lifetime ECL-not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL-credit-impaired	Lifetime ECL-credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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

	Internal credit rating	12-month or lifetime ECL	2023 Gross carrying amount RMB'000	2022 Gross carrying amount RMB'000
Financial assets at amortized cost				
Bank balances *(note i)*	Low risk	12-month ECL	**4,047,583**	334,972
Trade receivables *(note ii)*	Low risk	Lifetime ECL (collective assessment)	**600,734**	372,025
	Doubtful	Lifetime ECL (collective assessment)	**224,265**	62,560
	Doubtful	Lifetime ECL (individual assessment)	**7,155**	61,780
	Loss	Lifetime ECL (collective assessment)	**21,265**	8,796
Contract assets *(note ii)*	Low risk	Lifetime ECL (collective assessment)	**15,665**	15,665
	Doubtful	Lifetime ECL (collective assessment)	**16,015**	1,707
	Loss	Lifetime ECL (collective assessment)	**–**	88
Receivables for purchase of raw materials on behalf of customers	Low risk	12-month ECL	**12,526**	414
	Doubtful	Lifetime ECL (not credit-impaired)	**1,075**	4,832
Other receivables *(note iii)*	Low risk	12-month ECL	**8,198**	2,893
Pledged bank deposits *(note i)*	Low risk	12-month ECL	**4,400**	–
Other long-term deposits	Low risk	12-month ECL	**147**	–

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Notes:

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

(ii) For trade receivables and contract assets, the Group determines the ECL on collective basis by categorizing its customers into three types: grade A customers, grade B customers and grade C customers, based on the financial quality of debtors and their historical credit loss experience according to the past due status adjusted, as appropriate, to reflect estimates of future economic conditions. While for the customers which are assessed individually, the Group determines the ECL based on their historical credit loss experience according to the past due status adjusted, as appropriate, to reflect current conditions including but not limited to subsequent collection rate and repayment plan.

(iii) For other receivables and other long-term deposits, the directors of the Company believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended December 31, 2023 and 2022, the Group assessed the ECL for other receivables and other long-term deposits, no loss allowance of was recognized.

Trade receivables and contract assets

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

As at December 31, 2023, the Group provided RMB25,123,000 (2022: RMB23,998,000) impairment allowance for trade receivables, based on collective assessment.

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables and contract assets (Continued)

As at December 31, 2023, the Group provided RMB629,000 (2022: RMB151,000) impairment allowance for contract assets, based on collective assessment.

As at December 31, 2023, impairment allowance of RMB6,088,000 (2022: RMB27,892,000) was assessed individually on trade receivables with gross carrying amount of RMB7,155,000 (2022: RMB61,780,000).

The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on collective basis within lifetime ECL as at December 31, 2023 within lifetime ECL:

Gross carrying amount	2023			2022		
Internal credit rating	Average loss rate	Trade receivables RMB'000	Contract assets RMB'000	Average loss rate	Trade receivables RMB'000	Contract assets RMB'000
Grade A: Low risk and watch list	0.11%	600,734	15,665	0.03%	372,025	15,665
Grade B: Doubtful	1.58%	224,265	16,015	0.61%	62,560	1,707
Grade C: Loss	100%	21,265	–	100%	8,796	88
		846,264	31,680		443,381	17,460

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management of the Group to ensure relevant information about specific debtors is updated. The contract assets have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at January 1, 2022	(6,510)	(4,335)	(10,845)
— Impairment losses recognized	(36,647)	(4,549)	(41,196)
As at December 31, 2022	**(43,157)**	**(8,884)**	**(52,041)**
Changes due to financial instruments recognized as at January 1, 2023			
— Transfer to credit-impaired	**5,754**	**(5,754)**	**–**
— Impairment losses recognized	**(769)**	**(4,832)**	**(5,601)**
— Impairment losses reversed	**33,740**	**4,140**	**37,880**
New financial assets originated or purchased	**(6,143)**	**(5,935)**	**(12,078)**
As at December 31, 2023	**(10,575)**	**(21,265)**	**(31,840)**

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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

	12-month ECL RMB'000	Lifetime ECL (not credit-impaired) RMB'000	Total RMB'000
As at January 1, 2022	(2)	–	–
— Transfer to lifetime ECL	2,174	(2,174)	–
New financial assets originated or purchased	(2,173)	–	(2,173)
As at December 31, 2022	**(1)**	**(2,174)**	**(2,175)**
— Impairment losses reversed	**–**	**2,162**	**2,162**
— Transfer to lifetime ECL	**60**	**(60)**	**–**
New financial assets originated or purchased	**(135)**	**–**	**(135)**
As at December 31, 2023	**(76)**	**(72)**	**(148)**

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

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Liquidity risk

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

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

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments is prepared based on the contractual settlement dates as the management considers that the settlement dates are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average interest rate %	On demand or less than one year RMB'000	One to five years RMB'000	More than 5 years RMB'000	Total un-discounted cash flows RMB'000	Total carrying amounts RMB'000
2023						
Trade and other payables	N/A	819,151	–	–	819,151	819,151
Total financial liabilities		819,151	–	–	819,151	819,151
Lease liabilities	4.90	1,285	1,899	–	3,184	2,842
		820,436	1,899	–	822,335	821,993

33. FINANCIAL INSTRUMENTS (Continued)

c. Financial risk management objectives and policies (Continued)

Liquidity risk

	Weighted average interest rate %	On demand or less than one year RMB'000	One to five years RMB'000	More than 5 years RMB'000	Total un-discounted cash flows RMB'000	Total carrying amounts RMB'000
2022						
Trade and other payables	N/A	706,747	–	–	706,747	706,747
Loans from related parties	1.75–4.36	73,708	–	–	73,708	71,144
Total financial liabilities		780,455	–	–	780,455	777,891
Lease liabilities	4.90	4,531	1,958	–	6,489	6,040
		784,986	1,958	–	786,944	783,931
Derivative — net settlement						
Foreign currency forward		2,147	–	–	2,147	2,147

d. Fair value measurements of financial instruments

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

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

33. FINANCIAL INSTRUMENTS (Continued)

d. Fair value measurements of financial instruments (Continued)

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

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

Financial assets/ financial liabilities	Fair value as at December 31, 2023	Fair value as at December 31, 2022	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Financial assets at FVTPL	**Wealth management products: nil**	Wealth management products: RMB400,000,000	Level 2	Discounted cash flows method, estimated based on expected return and market foreign exchange rate	N/A
Foreign currency forward	**Derivative financial assets: nil**	Derivative financial assets: RMB799,000	Level 2	Future cash flows are estimated based on forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of the banks.	N/A
	Derivative financial liabilities: nil	Derivative financial liabilities: RMB2,147,000			

33. FINANCIAL INSTRUMENTS (Continued)

d. Fair value measurements of financial instruments (Continued)

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

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

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

34. RETIREMENT BENEFIT PLANS

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

The total cost charged to profit or loss in respect of the above-mentioned schemes amounted to approximately RMB28,916,000 for the year ended December 31, 2023(2022: RMB14,526,000).

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Obligations arising from equity transaction RMB'000	Lease liabilities RMB'000	Accrued share issue cost RMB'000	Loans from related parties RMB'000	Total RMB'000
As at January 1, 2022	–	2,249	–	22,343	24,592
Net financing cash flows	1,285,462	(6,050)	–	48,801	1,328,213
Issue of shares	(1,285,462)	–	–	–	(1,285,462)
Non-cash changes					
Interest expenses	–	325	–	–	325
New lease extended	–	1,514	–	–	1,514
Lease modification	–	8,002	–	–	8,002
As at December 31, 2022	**–**	**6,040**	**–**	**71,144**	**77,184**
Net financing cash flows	**–**	**(5,109)**	**(5,605)**	**(71,144)**	**(81,858)**
Issue of shares	**–**	**–**	**7,711**	**–**	**7,711**
Non-cash changes					
Interest expenses	**–**	**315**	**–**	**–**	**315**
New lease extended	**–**	**1,596**	**–**	**–**	**1,596**
As at December 31, 2023	**–**	**2,842**	**2,106**	**–**	**4,948**

36. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

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

Shanghai Duoning Biotechnology Co., Ltd. ("Duoning") is an associate of WuXi Biologics Cayman. Duoning and its subsidiaries collectively referred to as "Duoning Group".

In addition to the balances disclosed in Notes 23, 24, 26 and 27, the Group had the following significant transactions and balances with related parties:

(a) Related party transactions

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

	2023 RMB'000	2022 RMB'000
WuXi Biologics group	**217,738**	370,805
WuXi AppTec group	**10,008**	2,323
	227,746	373,128

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

	2023 RMB'000	2022 RMB'000
WuXi Biologics group	**5,625**	1,930

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) Related party transactions (Continued)

Sales of property, plant and equipment to related parties

	2023 RMB'000	2022 RMB'000
WuXi Biologics group	806	1,633

Lease income and provision of other services to related parties (included in other income)

	2023 RMB'000	2022 RMB'000
WuXi Biologics group	2,912	3,831

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

	2023 RMB'000	2022 RMB'000
WuXi Biologics group	908,792	355,710
WuXi AppTec group	133,299	66,547
	1,042,091	422,257

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

	2023 RMB'000	2022 RMB'000
WuXi Biologics group	56,907	85,418
WuXi AppTec group	2,549	1,034
Duoning group	61	19
	59,517	86,471

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) Related party transactions (Continued)

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

	2023 RMB'000	2022 RMB'000
WuXi Biologics group	41,377	21,854
WuXi AppTec group	20,745	65,324
Duoning group	3,579	1,901
	65,701	89,079

Purchase of property, plant and equipment

	2023 RMB'000	2022 RMB'000
WuXi Biologics group	4,787	1,573
Duoning group	3,932	45
Renze	2,487	3,599
	11,206	5,217

Interest expense on loans from related parties

	2023 RMB'000	2022 RMB'000
WuXi Biologics group	427	2,591

Interest expense on lease liabilities

	2023 RMB'000	2022 RMB'000
WuXi AppTec group	105	298

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) Related party transactions (Continued)

Expense relating to short-term leases

	2023 RMB'000	2022 RMB'000
WuXi AppTec group	97	2

(b) Related party balances

As at December 31, 2023 and 2022, the Group had balances with related parties as follows:

	2023 RMB'000	2022 RMB'000
Amounts due from related parties — Trade related		
Included in trade receivables:		
WuXi Biologics group	82,523	132,204
WuXi AppTec group	3,468	2,462
	85,991	134,666
Included in other receivables:		
WuXi Biologics group	1,864	679
Less: allowance for credit losses	(266)	(13,520)
	87,589	121,825
Included in advances to suppliers:		
WuXi AppTec group	82	–
	87,671	121,825

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Related party balances (Continued)

	2023 RMB'000	2022 RMB'000
Amounts due from related parties — Non-trade related		
Included in other receivables:		
WuXi Biologics group	–	1,633

	2023 RMB'000	2022 RMB'000
Contract assets — Trade related		
WuXi AppTec group	7,685	7,685
Less: allowance for credit losses	(229)	(44)
	7,456	7,641

	2023 RMB'000	2022 RMB'000
Amounts due to related parties — Trade related		
Included in trade payables:		
WuXi Biologics group	511,418	378,265
WuXi AppTec group	68,182	78,516
Duoning group	733	514
	580,333	457,295
Included in other payables:		
WuXi Biologics group	96,939	84,752
WuXi AppTec group	508	22,594
	677,780	564,641

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Related party balances (Continued)

	2023 RMB'000	2022 RMB'000
Amounts due to related parties — Non-trade related		
Included in payable for purchase of property, plant and equipment:		
Duoning group	1,507	–
WuXi Biologics group	–	1,618
Renze	–	189
	1,507	1,807

	2023 RMB'000	2022 RMB'000
Loans from related parties — Non-trade related		
WuXi Biologics group	–	71,144

	2023 RMB'000	2022 RMB'000
Lease liabilities		
WuXi AppTec group	–	4,105

Except for loan payables and lease liabilities, all the above balances with related parties are unsecured, interest free and repayable on demand.

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Compensation of key management personnel

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

	2023 RMB'000	2022 RMB'000
Director's fee	**408**	–
Salaries and other benefits	**5,275**	3,243
Performance-based bonus	**2,113**	1,297
Retirement benefits scheme contributions	**22**	–
Share-based compensation	**16,884**	15,288
	24,702	19,828

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

37. CAPITAL COMMITMENTS

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

	2023 RMB'000	2022 RMB'000
Contracted but not provided for		
— Property, plant and equipment	**159,266**	126,572

38. OPERATING LEASE ARRANGEMENTS

The Group as lessor

As at December 31, 2023, the Group's investment property with carrying amounts of RMB12,409,000 (2022: RMB12,812,000) were held for rental purposes.

Undiscounted lease payments receivable on leases are as follows:

	2023 RMB'000	2022 RMB'000
Within one year	988	2,963
In the second year	988	2,963
In the third year	–	2,963

39. DETAILS OF SUBSIDIARIES

The Company

	2023 RMB'000	2022 RMB'000
Unlisted shares, at cost	1,306,543	1,306,543
Deemed capital contributions *(note)*	106,831	27,487
	1,413,374	1,334,030

Note: The amounts represent the equity-settled share-based compensation in respect of the respective share options granted by the Company to certain subsidiaries' employees for their services rendered to the respective subsidiaries under the Company's Pre-IPO Share Option Scheme as disclosed in Note 32. Since the subsidiaries have no obligation to reimburse such expense to the Company, the amounts are treated as deemed capital contribution by the Company to the subsidiaries and regarded as the Company's cost of investments in subsidiaries.

39. DETAILS OF SUBSIDIARIES (Continued)

The Company (Continued)

The direct and indirect interests in the following subsidiaries held by the Company at the end of the years ended December 31, 2023 and 2022 are as follows:

Names of subsidiaries	Place of incorporation/ operation, date of incorporation	Authorized share/ registered capital	Paid up capital	Attributable equity interests held by the Company as at 2023	2022	Principal activities
WuXi XDC Hong Kong Limited *(note i)*	Hong Kong June 7, 2021	HK$1	–	**100%**	100%	International sales contracting service
無錫藥明合聯生物技術有限公司（曾用名：無錫藥明偶聯生物技術有限公司）(XDC Wuxi)# *(note ii)*	The PRC March 13, 2018	US$200,000,000	US$196,500,000 RMB24,421,604.18	**100%**	100%	Biologics discovery, development and manufacturing service
上海藥明合聯生物技術有限公司（曾用名：上海藥明全聯生物技術有限公司）(XDC Shanghai)# *(note i)*	The PRC March 31, 2021	RMB30,000,000	RMB30,000,000	**100%**	100%	Biologics discovery, development and manufacturing service
常州藥明合聯生物技術有限公司 (WuXi XDC (Changzhou) Co., Ltd. ("XDC Changzhou"))# *(note i)*	The PRC July 2, 2021	RMB300,000,000	RMB300,000,000	**100%**	100%	Biologics discovery, development and manufacturing service
WuXi XDC Singapore Private Limited ("XDC SG") *(note ii)*	Singapore November 16, 2022	US$31,000,000	US$31,000,000	**100%**	100%	Biologics manufacturing service

English name is for identification purpose only.

Notes:

(i) This company is a wholly-domestic owned enterprise.

(ii) This company is a wholly-foreign owned enterprise.

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

40. FINANCIAL POSITION OF THE COMPANY

	2023 RMB'000	2022 RMB'000
Non-current Assets		
Investments in subsidiaries	**1,413,374**	1,334,030
Current Assets		
Bank balances and cash	**3,582,929**	591
Current Liabilities		
Other payables	**43,588**	1,812
Net Current Assets (Liabilities)	**3,539,341**	(1,221)
Total Assets less Current Liabilities	**4,952,715**	1,332,809
Capital and Reserves		
Share capital	**390**	319
Reserves	**4,952,325**	1,332,490
Total Equity	**4,952,715**	1,332,809

41. RESERVES MOVEMENT OF THE COMPANY

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

	Share premium RMB'000	Equity-settled share-based compensation reserve RMB'000	Retained earnings (Accumulated losses) RMB'000	Total reserves RMB'000
As at January 1, 2022	–	–	(640)	(640)
Total comprehensive income for the year	–	–	20,237	20,237
Issue of shares *(Note 31)*	1,285,143	–	–	1,285,143
Recognition of equity-settled share-based compensation	–	27,750	–	27,750
As at December 31, 2022	**1,285,143**	**27,750**	**19,597**	**1,332,490**
Total comprehensive expense for the year	**–**	**–**	**(64,630)**	**(64,630)**
Shares issued pursuant to the IPO	**3,740,885**	**–**	**–**	**3,740,885**
Transaction costs attributable to issue of new shares	**(135,764)**	**–**	**–**	**(135,764)**
Recognition of equity-settled share-based compensation	**–**	**79,344**	**–**	**79,344**
As at December 31, 2023	**4,890,264**	**107,094**	**(45,033)**	**4,952,325**

42. INVESTMENTS IN SUBSIDIARIES

	2023 RMB'000	2022 RMB'000
Unlisted shares, at cost	**1,306,543**	1,306,543
Deemed capital contributions to *(note)*:		
XDC Wuxi	**72,307**	18,140
XDC Changzhou	**1,941**	687
XDC Shanghai	**32,583**	8,660
	1,413,374	1,334,030

Note: The amounts represent the equity-settled share-based compensation in respect of the respective share options granted by the Company to certain employees of the specified subsidiaries for employees' services rendered to the respective subsidiaries under the Company's Pre-IPO Share Option Scheme as disclosed in Note 32. Since the subsidiaries have no obligation to reimburse such expense, the amounts are treated as deemed capital contribution by the Company to the subsidiaries and included in the Company's cost of investments in subsidiaries.

Definitions

"2021 Pre-IPO Share Option Scheme"	the share option scheme adopted by the Company on November 23, 2021, the principal terms of which are summarized in the section headed "2021 Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus
"2023 Pre-IPO Share Option Scheme"	the share option scheme adopted by the Company on March 22, 2023, the principal terms of which are summarized in the section headed "2023 Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus
"AGM"	the annual general meeting of the Company
"antibody drug conjugate(s)" or "ADC(s)"	an emerging class of highly potent biopharmaceutical drugs designed as a targeted therapy combining the specific targeting capabilities of monoclonal antibodies with the cancer-killing ability of cytotoxic drugs for the treatment of cancer
"Articles of Association"	the second amended and restated articles of association, conditionally approved and adopted by the Company on October 30, 2023 effective on the Listing Date, and as amended from time to time
"Audit Committee"	the audit committee of the Board
"BLA"	Biologics license application, a request for permission to introduce, or deliver for introduction, a biologic product for commercialization in a specific jurisdiction
"Board"	the board of Directors
"CAGR"	compound annual growth rate
"CG Code"	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
"cGMP"	Current Good Manufacturing Practice, regulations enforced by the FDA on pharmaceutical and biotech firms to ensure that the products produced meet specific requirements for identity, strength, quality and purity
"Chairman"	the chairman of the Board
"China" or the "PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau Special Administrative Region and Taiwan

Definitions

"Company"	WuXi XDC Cayman Inc. (藥明合聯生物技術有限公司)*, an exempted company incorporated under the laws of the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to WuXi Biologics, WuXi AppTec, WuXi AppTec (Shanghai) Co., Ltd. (上海藥明康德新藥開發有限公司), STA and STA Pharmaceutical, or any one of them
"CRDMO"	Contract Research, Development and Manufacturing Organization
"DAR"	drug-to-antibody ratio, refers to the average number of drug molecules that are attached to each antibody molecule
"Director(s)"	the director(s) of the Company
"drug product" or "DP"	a dosage form that contains an active drug ingredient
"drug substance" or "DS"	an active ingredient that is intended to furnish pharmacological activity or other direct effect in the diagnosis, cure, mitigation, treatment, or prevention of disease or to affect the structure or any function of the human body, but does not include intermediates used in the synthesis of such ingredient
"EMA"	European Medicines Agency
"ESG"	Environmental, Social and Governance
"EU"	European Union, a politico-economic union of 27 member states that are located primarily in Europe
"EUR"	Euro, the official currency of 20 out of 27 member States of the EU

"FDA"	the U.S. Food and Drug Administration
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
"Global Offering"	the Hong Kong Public Offering and the International Offering (both as defined in the Prospectus)
"GMP"	Good manufacturing practice
"Group"	the Company and its subsidiaries
"H.K. dollar(s)", "HK$" or "HKD"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKEX"	Hong Kong Exchange and Clearing Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IND"	investigational new drug, an experimental drug for which a pharmaceutical company obtains permission to ship across jurisdictions (usually to clinical investigators) before a marketing application for the drug has been approved
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on November 17, 2023
"Listing Date"	November 17, 2023
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Main Board"	Main Board of the Stock Exchange

Definitions

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules
"NMPA"	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) from 2013 to 2018 and the State Food and Drug Administration (國家食品藥品監督管理局) from 2003 to 2013
"NYSE"	the New York Stock Exchange
"Payload & Linker Business"	the payload & linker business, which includes the customer resources, personnel and assets relating to such business, acquired by the Group from STA Pharmaceutical
"Pre-IPO Share Option Schemes"	collectively, the 2021 Pre-IPO Share Option Scheme and the 2023 Pre-IPO Share Option Scheme
"Prospectus"	the prospectus issued by the Company dated November 7, 2023
"Remaining WXB Group"	WuXi Biologics and its subsidiaries, excluding the Group
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the one-year period from January 1, 2023 to December 31, 2023
"R&D"	research and development
"SFO"	the Securities and Futures Ordinance Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares in the share capital of the Company with a par value of US$0.00005 each
"Shareholder(s)"	holder(s) of Share(s)

Definitions

"STA"	Shanghai SynTheAll Pharmaceutical Co., Ltd.* (上海合全藥業股份有限公司), a limited liability company established in the PRC on January 23, 2003
"STA Changzhou"	Changzhou SynTheAll Pharmaceutical Co., Ltd.* (常州合全藥業有限公司), a limited liability company established in the PRC on September 29, 2013, a non-wholly owned subsidiary of WuXi AppTec
"STA Pharmaceutical"	STA Pharmaceutical Hong Kong Investment Limited* (合全藥業香港投資有限公司), a limited liability company incorporated in Hong Kong
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S."	The United States of America
"U.S. dollar(s)" or "US$" or "USD"	United States dollar(s), the lawful currency of the United States of America
"Written Guidelines"	the Guidelines for Securities Transactions by Employees
"Wuxi AppTec"	WuXi AppTec Co., Ltd.* (無錫藥明康德新藥開發股份有限公司), a joint stock company with limited liability incorporated in the PRC on December 1, 2000, with its A shares being listed on the Shanghai Stock Exchange (SSE stock code: 603259) and its H shares being listed on the Main Board of the Stock Exchange (HKEx stock code: 2359), one of our Controlling Shareholders
"WuXi Biologics"	WuXi Biologics (Cayman) Inc. (藥明生物技術有限公司)*, an exempted company incorporated with limited liability in the Cayman Islands, with its shares being listed on the Main Board of the Stock Exchange (HKEx stock code: 2269), one of our Controlling Shareholders
"WXAT Group"	Wuxi AppTec together with its subsidiaries
"WXB Group"	WuXi Biologics together with its subsidiaries

Definitions

"XDC(s)"	bioconjugates extending beyond ADC first through conjugation of various payloads other than chemical drugs with antibodies, and then further through conjugation of various carriers (other than antibodies) with various payloads
"XDC Wuxi"	WuXi XDC Co., Ltd.* (無錫藥明合聯生物技術有限公司), a limited liability company incorporated in the PRC on March 13, 2018, a wholly-owned subsidiary of the Company
"%"	per cent

In this annual report, the terms "associate", "connected person", "substantial shareholder" and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

* *For identification purposes*