基石药业
CSTONE
PHARMACEUTICALS

CStone Pharmaceuticals
基石藥業

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)
Stock Code 股份代號 : **2616**

2021 年度報告
Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Director

Dr. Frank Ningjun Jiang[1] *(Chief Executive Officer)*

Non-executive Directors

Dr. Wei Li[2] *(Chairman)*
Mr. Kenneth Walton Hitchner III[3]
(appointed on December 10, 2021)
Mr. Yanling Cao
Mr. Xianghong Lin
Mr. Edward Hu[4] *(appointed on July 9, 2021)*
Mr. Qun Zhao *(resigned on December 10, 2021)*
Dr. Lian Yong Chen *(resigned on July 9, 2021)*

Independent Non-executive Directors

Dr. Paul Herbert Chew
Mr. Ting Yuk Anthony Wu
Mr. Hongbin Sun

AUDIT COMMITTEE

Mr. Hongbin Sun *(Chairman)*
Dr. Paul Herbert Chew
Mr. Ting Yuk Anthony Wu

COMPENSATION COMMITTEE

Mr. Ting Yuk Anthony Wu *(Chairman)*
Dr. Wei Li
Dr. Paul Herbert Chew

NOMINATION COMMITTEE

Dr. Wei Li[4] *(Chairman)*
Mr. Yanling Cao
Dr. Paul Herbert Chew
Mr. Ting Yuk Anthony Wu
Mr. Hongbin Sun

STRATEGY COMMITTEE

Dr. Frank Ningjun Jiang *(Chairman)*
Mr. Edward Hu[5]
Dr. Paul Herbert Chew

INVESTMENT COMMITTEE[8]

Mr. Edward Hu[5] *(Chairman)*
Mr. Kenneth Walton Hitchner III[3]
Mr. Hongbin Sun

AUTHORIZED REPRESENTATIVES

Dr. Frank Ningjun Jiang
Ms. Jeanie Lau[7]

COMPANY SECRETARIES

Mr. Ning He[6]
Ms. Jeanie Lau[7]

COMPANY WEBSITE:

www.cstonepharma.com

REGISTERED OFFICE

The offices of Vistra (Cayman) Limited
P.O. Box 31119, Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

21/F, No. 399
West Haiyang Road
New Bund Times Square
Pudong New Area, Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR

Walkers Corporate Limited
Cayman Corporate Centre
27 Hospital Road
George Town
Grand Cayman KY1-9008
Cayman Islands

HONG KONG SHARE REGISTRAR

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

HONG KONG LEGAL ADVISER

Davis Polk & Wardwell
18/F, The Hong Kong Club Building
3A Chater Road
Hong Kong

COMPLIANCE ADVISER

Rainbow Capital (HK) Limited
Room 5B, 12/F, Tung Ning Building
No. 2 Hillier Street
Sheung Wan
Hong Kong

PRINCIPAL BANKERS

Silicon Valley Bank
3003 Tasman Dr.
Santa Clara, CA 95054

China Construction Bank
Industrial Park of Suzhou Branch
No. 1133 Dong Huan Road
Suzhou
PRC

STOCK CODE

2616

AUDITOR

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

Notes:

(1) Dr. Frank Ningjun Jiang ceased to act as Chairman with effect from May 31, 2022.

(2) Dr. Wei Li was appointed as Chairman with effect from May 31, 2022.

(3) Mr. Kenneth Walton Hitchner III was appointed as a non-executive Director with effect from December 10, 2021.

(4) Dr. Frank Ningjun Jiang ceased to act as chairman and member of the Nomination Committee and Dr. Wei Li took up the role of the chairman of the Nomination Committee with effect from May 31, 2022.

(5) Mr. Edward Hu was appointed as a non-executive Director and a member of the Strategy Committee with effect from July 9, 2021.

(6) Mr. Ning He has been appointed as the joint company secretary of the Company with effect from January 25, 2021.

(7) Ms. Jeanie Lau was appointed as the joint company secretary, the process agent and the authorized representative of the Company with effect from June 3, 2021.

(8) The Investment Committee was established on May 31, 2022.

Financial Highlights

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") MEASURES:

- **Revenue** was RMB243.7 million for the year ended December 31, 2021, composed of RMB162.8 million in sales of pharmaceutical products, representing sales of the Company's newly launched pharmaceutical products (avapritinib and pralsetinib), and RMB80.9 million in license fee income, representing a decrease of RMB957.9 million from RMB1,038.8 million in the previous year as a result of decrease in the one-off license fee income.

- **Research and development expenses** were RMB1,304.9 million for the year ended December 31, 2021, representing a decrease of RMB99.8 million from RMB1,404.7 million for the year ended December 31, 2020, primarily due to lower spending on approved products, and offset by continued investment in key clinical trials and pre-clinical studies during the Reporting Period. In particular, we received the approval of sugemalimab in mainland China for stage IV non-small cell lung cancer ("**NSCLC**") and met the primary endpoint of progression-free survival ("**PFS**") in patients with stage III NSCLC during the Reporting Period.

- **Administrative expenses** were RMB297.6 million for the year ended December 31, 2021, representing a decrease of RMB44.9 million from RMB342.5 million for the year ended December 31, 2020, primarily due to the decrease in share-based payment expenses.

- **Selling and marketing expenses** were RMB363.8 million for the year ended December 31, 2021, representing an increase of RMB221.6 million from RMB142.2 million for the year ended December 31, 2020, primarily attributable to sales force build-up and marketing activities for product launches.

- **Loss for the year** was RMB1,920.1 million for the year ended December 31, 2021, representing an increase of RMB699.1 million from RMB1,221.0 million for the year ended December 31, 2020, primarily attributable to the decrease in the license fee income, increase in selling and marketing expenses for commercial launch, and offset by the increase in sales income of avapritinib and pralsetinib.

NON-INTERNATIONAL FINANCIAL REPORTING STANDARDS ("NON-IFRS") MEASURES:

- **Research and development expenses** excluding the share-based payment expenses were RMB1,182.1 million for the year ended December 31, 2021, representing a decrease of RMB63.6 million from RMB1,245.7 million for the year ended December 31, 2020, primarily due to lower spending on approved products, and offset by continued investment in key clinical trials and pre-clinical studies during the Reporting Period. In particular, we received the approval of sugemalimab in mainland China for stage IV NSCLC and met the primary endpoint of PFS in patients with stage III NSCLC during the Reporting Period.

- **Administrative and selling and marketing expenses** excluding the share-based payment expenses were RMB561.5 million for the year ended December 31, 2021, representing an increase of RMB273.9 million from RMB287.6 million for the year ended December 31, 2020, primarily attributable to sales force build-up and marketing activities for product launches.

- **Loss for the year** excluding the share-based payment expenses was RMB1,697.4 million, representing an increase of RMB832.4 million from RMB865.0 million for the year ended December 31, 2020, primarily attributable to the decrease in the one-off license fee income, increase in selling and marketing expenses for commercial launch and offset by the increase in revenue of avapritinib and pralsetinib.

	As at December 31/year ended December 31,				
	2021	2020	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-IFRS measures					
Research and development expenses (excluding the share-based payment expenses)	**(1,182,110)**	(1,245,712)	(1,188,743)	(726,930)	(196,497)
Administrative expenses & Selling expenses (excluding the share-based payment expenses)	**(561,548)**	(287,607)	(137,640)	(79,296)	(28,191)
Loss for the year (excluding the non-IFRS adjustments)	**(1,697,429)**	(864,976)	(1,141,263)	(672,598)	(234,526)
IFRS measures					
Revenue	**243,718**	1,038,832	–	–	–
Cost of revenue	**(106,832)**	(241,421)	–	–	–
Other income	**45,773**	51,671	83,962	20,497	13,954
Other gains and losses	**(134,188)**	(179,419)	(637,365)	(741,979)	(103,665)
Research and development expenses	**(1,304,945)**	(1,404,684)	(1,395,624)	(850,197)	(213,441)
Administrative expenses	**(297,596)**	(342,508)	(341,476)	(190,991)	(39,335)
Selling expenses	**(363,788)**	(142,150)	–	–	–
Listing expenses	**–**	–	(17,638)	(30,459)	–
Finance costs	**(2,242)**	(1,320)	(303)	–	(60)
Loss for the year	**(1,920,100)**	(1,220,999)	(2,308,444)	(1,793,129)	(342,547)
Loss per share					
Basic and diluted (RMB Yuan)	**(1.65)**	(1.17)	(2.39)	(2.79)	(0.67)
Cash and cash equivalents and time deposits	**1,603,444**	3,383,418	2,725,867	1,462,552	83,390
Total assets	**2,271,453**	3,762,752	2,950,645	1,632,118	564,280
Total liabilities	**1,064,445**	808,292	469,063	1,116,787	113,228
Total equity	**1,207,008**	2,954,460	2,481,582	515,331	451,052

Business Highlights

2021 was a breakout year in CStone's history marked by the launch of two first-in-class precision medicines and multiple additional milestones across our pipeline and business. For the year ended December 31, 2021 and as of the date of this report, significant progress has been made with respect to our product pipeline and business operations. A shortlist of our achievements over this period includes:

- RMB243.7 million in total revenue, including RMB162.8 million of product revenue within eight months
- 7 NDA approvals obtained for 4 products
- 3 products launched: avapritinib, pralsetinib, and sugemalimab, and a fourth, ivosidenib, to launch imminently
- 6 NDAs filed for additional indications or territories
- 4 IND approvals for Pipeline 2.0 assets with best-in-class potential: CS5001 (ROR1 ADC) in the U.S., Australia and mainland China, and CS2006 (PD-L1/4-1BB/HSA) in mainland China
- Over 10 discovery projects in progress, including multi-specifics, antibody drug conjugates, and a proprietary platform for drugging intractable intracellular targets
- 2 strategic partnerships formed, one with Jiangsu Hengrui Pharmaceuticals Co., Ltd. to support product commercialization and the second with an early-stage biotech company to support pre-clinical asset development
- Co-development of Pfizer's lorlatinib initiated to further our lung cancer offering
- Launched pilot operations of our state-of-the-art manufacturing facility

These achievements represent only a snapshot of what we have accomplished.

We have fully developed our commercial capabilities, making rapid and significant progress in building the team, infrastructure, and industry network over the past year. Our commercial team has executed a clearly defined strategy and achieved successful launches of three products. We have shaped the treatment paradigm for the target diseases of our precision medicines with broad physician education, collaboration with industry associations on diagnostic and treatment standardization, and collaboration with diagnostics companies. As a result, we have seen continuous improvement in diagnostic rates for the approved indications for avapritinib and pralsetinib since their launch. Currently, our precision medicines have been included in over 10 national guidelines, up from 7 at the time we released our 2021 interim results announcement. In addition, they have been listed in over 60 supplemental insurance plans, up from 20, covering an urban population of approximately 60 million people, up from 40 million at the time we released our 2021 interim results.

Our clinical team has demonstrated the ability to translate our advantages in innovation, speed, and quality into tangible results for patients and our business. We successfully obtained approval of four products within 12 months, including three first-in-class precision medicines as well as our flagship immuno-oncology backbone drug. We have also advanced a number of trials through significant clinical milestones. For one, sugemalimab met the primary endpoint in a study of patients with stage III NSCLC without disease progression after concurrent or sequential chemoradiotherapy in our one-of-a-kind GEMSTONE-301 trial, making it the world's only anti-PD-1/PD-L1 monoclonal antibody to achieve this outcome. The broader spectrum of our clinical development success is reflected in the fact that CStone was invited to present data via seven (7) oral presentations at global academic conferences, a rare accomplishment among Chinese biotech companies. These presentations covered study results of sugemalimab in stage III NSCLC and stage IV NSCLC patients, pralsetinib in first-line NSCLC and MTC patients in China and ivosedinib in R/R AML patients in China as well as first-line AML patients in a global trial. In the latter, the global phase III AGILE trial was halted for further enrolment due to overwhelmingly compelling efficacy and the results were published in *The New England Journal of Medicine*. Moreover, the results of the unique sugemalimab trials for both stage III NSCLC and stage IV NSCLC have been published in the oncology journal *The Lancet Oncology*.

Our research team has made transformational changes to its capacity for early-stage innovation and efficiency. In 2021, we refined our research strategy to harness the modular nature of biologics to accelerate internal drug discovery around new modalities. Additionally, we established a new global R&D center, expanding our capacities in critical areas such as antibody discovery and development, systems pharmacology, and bioinformatics. These initiatives bolster our immuno-oncology and precision medicine franchises and enhance our capacity to meet our long-term target of filing 1-2 INDs per year.

Our latest business development partnerships will maximize the commercial value of our CTLA-4 antibody and bring access to proprietary technology to generate new pre-clinical assets with BIC/FIC potential.

Lastly, we launched pilot operations of our manufacturing facility as expected. We are steadily advancing our readiness for full-scale operations to produce our products for clinical trials as well as commercial sales. We are also in the process of technology transfer for multiple products which will reduce costs and improve long-term profitability of our products.

These achievements give us the potential to finish 2022 with the launch of ivosidenib, additional launches for in-market products across a range of indications and geographies, new IND filings, new preclinical development programs, and further the maturation of our business into a full-fledged biopharmaceutical company with end-to-end capabilities.

For the year ended December 31, 2021 and as of the date of this report, significant progress has been made with respect to our product pipeline and business operations:

Business Highlights

I. Multiple Product Launches and Continued Robust Commercial Efforts

We have maintained a significantly accelerated level of commercial activity with the launch of two first-in-class precision medicines, AYVAKIT® (avapritinib) and GAVRETO® (pralsetinib), which we brought to market over the course of May and June 2021. We continued our success into the beginning of 2022 with the commercial launch of CEJEMLY® (sugemalimab), in partnership with Pfizer. Most recently, we have received NDA approval for another first-in-class product, TIBSOVO® (ivosidenib), and expect to launch soon in mainland China.

Our growing commercial team continued its rapid execution of pre-launch and post-launch efforts to set the stage for market adoption of our products. They have kept up robust efforts to engage the healthcare community, including healthcare providers, academic societies, patient groups, hospitals, pharmacies, payors, and other stakeholders, to provide education on our products and demonstrate our scientific leadership. In addition, they have expanded access and affordability of our products through various patient identification programs and by working with payors to promote coverage of them in insurance programs.

Lastly, they are supporting the broader pipeline of late-stage assets by mapping out commercialization plans for those coming to market in the near-term, including in close collaboration with our commercial partners.

Highlights and details on our 2021 commercial activity follow below.

- ***Achieved Significant Sales Ramp Up of Our First Products to Market***

  We achieved a rapid sales ramp up of AYVAKIT® (avapritinib) and GAVRETO® (pralsetinib), our first two drugs to market, generating combined net sales of RMB162.8 million within the first eight months following their launch.

- ***Achieved Successful Launches***

  Our comprehensive commercial efforts resulted in successful launches of our approved products.

  – AYVAKIT® (avapritinib): Launched in mainland China and Taiwan, China. Prescribed in approximately 50 hospitals and available in 50 direct-to-patient pharmacies ("**DTPs**") within one month of launch.

  – GAVRETO® (pralsetinib): Launched in mainland China. Available in 80 DTPs in approximately 70 cities within one month of launch.

  – CEJEMLY® (sugemalimab): Launched in mainland China within 18 days of receiving NDA approval, thanks to close collaboration with our commercial partner Pfizer.

- ***Expansion of sales force coverage in key markets for prescriptions of precision drugs***

  – We have established a full-fledged commercial organization with the capabilities and executional sophistication of multinational company. The leadership team is composed of seasoned industry executives whose track record include over 30 successful drug launches in oncology and hematology. The team is currently focused on market development for CStone's approved precision medicines and the broader pipeline of late-stage assets to support CStone's oncology franchise.

  – We have specifically focused our efforts on ensuring dedicated sales coverage and expanded to approximately 600 hospitals in the second half of 2021, up from 400 at midyear, accounting for approximately 70-80% of the relevant market for precision medicines where we believe we can maximize the return on our sales efforts.

- ***Established broad industry and academic awareness of our brand and scientific leadership***

  – We established GAVRETO® (pralsetinib), AYVAKIT® (avapritinib) and TIBSOVO® (ivosidenib) in over 10 of China's national guidelines, including CSCO NSCLC/GIST Guidelines, Chinese Medical Association Guidelines, and Guidelines on Clinical Practice of Molecular Tests in NSCLC, for treatment paradigms for multiple therapeutic areas (NSCLC, thyroid cancer, gastrointestinal stromal tumors and acute myeloid leukemia).

  – We collaborated with several industry associations – Chinese Society of Clinical Oncology, China Anti-Cancer Association, and Chinese Medical Doctor Association – on diagnostic and treatment standardization projects for gastrointestinal stromal tumors, NSCLC and hematological malignancies, further strengthening our industry connections and demonstrating our expertise.

  – We enhanced awareness of our products among physicians and key opinion leaders ("**KOLs**") via proactive engagement and constant education. In 2021, we participated in over 1,500 activities and events reaching over 10,000 leading KOLs and healthcare professionals ("**HCPs**"), resulting in an enhanced awareness within the healthcare community of our treatments.

  – We sponsored leading KOLs in post-approval clinical projects such as investigator-initiated trials and real-world studies to generate additional data in multiple cancer indications which may support the adoption of our drugs, and funded research in collaboration with non-profit academic institutions.

Business Highlights

- ***Launched anchor projects to facilitate patient identification and support prescription and retention ratios***

  – We are collaborating with gene sequencing companies to strengthen the diagnostic capabilities of hospitals and improve testing rates.

  – We have launched disease management programs for patients and physicians, including an online platform, to provide education and process inquiries on our drugs, encourage follow up visits and manage adverse events that may arise during the course of treatment, among other topics. This patient-centric approach is intended to increase prescription and retention ratios.

- ***Developing a range of approaches to promote access to and affordability of our drugs***

  – We established a patient assistance program (PAP) for AYVAKIT® (avapritinib) and GAVRETO® (pralsetinib) with a charitable foundation.

  – We secured inclusion of AYVAKIT® (avapritinib) and GAVRETO® (pralsetinib) in over 60 of the major commercial and government insurance programs, up from 20 as disclosed in our 2021 interim results announcement. Our efforts have expanded the availability of reimbursement for our drugs for approximately 60 million people.

  – We established a strategic collaboration agreement with Sinopharm Group Co., Ltd ("**Sinopharm**") to broaden hospital and pharmacy distribution coverage for both GAVRETO® (pralsetinib) and AYVAKIT® (avapritinib). By the end of 2021, AYVAKIT® (avapritinib) and GAVRETO® (pralsetinib) have been listed in approximately 100 hospitals and DTPs.

  – We formed strategic collaboration agreements with three of the largest integrated innovative healthcare service platforms in mainland China – Shanghai Meditrust Health Co., Ltd., Beijing Yuanxin Technology Group Co., Ltd., and Medbanks Health Technology Co., Ltd. – to improve distribution and affordability of GAVRETO® (pralsetinib) and AYVAKIT® (avapritinib) by facilitating enrolment in city insurance programs.

- ***Establishing commercial plans for new indications to expand the addressable market for precision medicines***

  – We are actively preparing for the launch readiness of several new indications for late-stage drugs, which can greatly expand their market potential. For three of our precision medicines, GAVRETO® (pralsetinib), AYVAKIT® (avapritinib) and TIBSOVO® (ivosidenib), we estimate the potential addressable patient population to expand from approximately 10,000 for second-line NSCLC and GIST launched in 2021 to approximately 90,000 for these and other indications, including first-line NSCLC, thyroid cancer, acute myeloid leukemia, cholangiocarcinoma, and myelodysplastic syndromes, among others.

- ***Collaborating with global strategic partners to support launches of IO backbone drugs***

  – We are closely collaborating with our partners Pfizer and EQRx on the development and commercialization of sugemalimab in mainland China and outside of Greater China, respectively. On December 21, 2021, we received the approval of sugemalimab in mainland China for stage IV NSCLC and the drug has been launched successfully in early January 2022. We worked with Pfizer to set up all commercial agreements, ordering process and commercial/PAP goods supply. In addition, we have opened distributor accounts and supported bidding progress to ensure patient accessibility upon the NDA approval.

  – With EQRx, we are working closely on global development and regulatory strategies for sugemalimab, including the U.S., the U.K. and the European Union ("**EU**"), as well as territories beyond these such as the Middle East, Turkey and Africa. The global market size of PD-(L)1 for the treatment of NSCLC, gastric and esophageal cancers is forecasted to be approximately US$30 billion in 2026.

II. Innovation, High Quality and Rapid Execution Lead to Advances across a Maturing Pipeline

CStone followed through on an aggressive clinical agenda with further developments across its pipeline. In total, we secured seven NDA approvals and submitted six NDA filings as we rounded out our diverse and maturing pipeline of in-market and near-commercial ready drugs. In doing so, our clinical engine once again distinguished itself in terms of four key dimensions:

– **Innovation in drug development to broaden addressable patient populations and target unmet medical needs:**

  ▪ Our sugemalimab trials simultaneously covered different pathologies and treatment modalities to establish efficacy for stage III and stage IV NSCLC.

  ▪ We achieved breakthrough therapy designation from China National Medical Products Administration ("**NMPA**") and the U.S. Food and Drug Administration ("**U.S. FDA**") for the treatment of relapsed or refractory extranodal natural killer/T-cell lymphoma (R/R ENKTL), demonstrating our ability to target patient populations with significant unmet needs.

  ▪ We made seven oral presentations at prestigious global conferences in 2021, including the American Society for Clinical Oncology (ASCO), the European Society for Medical Oncology (ESMO), and the World Conference on Lung Cancer (WCLC). And two manuscripts were published in the Lancet Oncology on our trials with sugemalimab in stage III and stage IV NSCLC, with commentary from the journal recognizing the high degree of similarity between progression-free-survival and overall-survival and those of previously approved trials by global regulatory bodies such as the U.S. FDA.

Business Highlights

- **Exceptional speed leading to consecutive launches:** We secured approval of four products within 12 months, reaching the commercial stage of our development within just over five years since the company's inception; and we achieved approval of our sugemalimab in its first large indication, NSCLC, within four years from the first patient dosed.

- **World class quality to support our global partnerships:** Our global quality has been validated by our global strategic partners such as Pfizer, Bayer, Blueprint, Servier, and EQRx. Our clinical trials have generated data that is highly consistent with that achieved by our global partners.

- **Efficiency and cost effectiveness:** Our abilities across all of these dimensions will ultimately shorten the route to commercialization for our products and allow us to do so with fewer costs and resources. We believe this capability gives us a significant competitive advantage.

Details follow below.

- **Sugemalimab** (CS1001, PD-L1 antibody), in 2021 became the first PD-(L)1 in the world to demonstrate efficacy for both stage III and stage IV NSCLC in randomized, double-blind phase III trials.

  - In September 2021, the NMPA accepted the NDA for sugemalimab as a consolidation therapy in patients with unresectable stage III NSCLC without disease progression after concurrent or sequential chemoradiotherapy, addressing a significant unmet need in the patient population. The final PFS analysis of the registrational study further demonstrates sugemalimab's robust efficacy and significant clinical benefits shown in interim analysis. We expect to receive the NDA approval in the first half of 2022. This would cement sugemalimab's global first-in-class stature for treatment of the sequential population, which accounts for approximately 70% of the clinical practice in China.

  - In December 2021, we received the NDA approval of sugemalimab from the NMPA for the first-line treatment of both squamous and non-squamous stage IV NSCLC. This is the first trial to show a benefit when combining a PD-L1 inhibitor with chemotherapy for patients with metastatic squamous and non-squamous NSCLC. In January 2022, the drug was launched in mainland China by our partner, Pfizer.

  - In January 2022, the registrational trial for relapsed or refractory extranodal natural killer/T-cell lymphoma (R/R ENKTL) met the primary endpoint and demonstrated a complete response (CR) rate significantly exceeding that of the currently available targeted monotherapy for these patients. This gives it the potential to set a new standard of care in this indication. We plan to submit an NDA to the NMPA for this indication in the near term.

  - In January 2022, two key phase III registrational clinical trials completed patient enrollment, one for the first-line treatment of metastatic gastric adenocarcinoma (GC)/gastro-esophageal junction (GEJ) adenocarcinoma, and the other for the first-line treatment of metastatic esophageal squamous cell carcinoma (ESCC).

- For the markets outside of Greater China, we are working closely with EQRx on regulatory discussions for regulatory submissions for indications in stage III NSCLC, stage IV NSCLC, and ENKTL in multiple countries and regions, including the U.S., the U.K., and the EU. For stage IV NSCLC, we expect the first NDA filing outside of the U.S. in the second half of 2022. Meanwhile, constructive conversations with the U.S. FDA are ongoing to gain greater clarity on the regulatory path. For ENKTL, sugemalimab has received Breakthrough Therapy Designation ("**BTD**") from the U.S. FDA and we expect the Biologics License Application ("**BLA**") filing in 2023.

- **Pralsetinib** (CS3009, RET inhibitor) – We have secured two (2) NDA approvals and have two (2) NDA filings currently under review.

  - On March 24, 2021, we received the NDA approval from the NMPA for the treatment of patients with locally advanced or metastatic RET fusion-positive NSCLC previously treated with platinum-based chemotherapy.

  - In April 2021, the NMPA accepted the NDA with priority review designation for the treatment of patients with advanced or metastatic RET-mutant medullary thyroid cancer (MTC) and RET fusion-positive thyroid cancer (TC).

  - On March 11, 2022, we received the NDA approval from the NMPA for the treatment of patients with advanced or metastatic RET-mutant MTC and RET fusion-positive TC.

  - In February 2022, the Taiwan Food and Drug Administration ("**TFDA**") accepted the NDA for the treatment of patients with RET fusion-positive locally advanced or metastatic NSCLC, RET-mutant MTC and RET fusion-positive TC.

  - In March 2022, the Hong Kong Department of Health ("**HK DoH**") accepted the NDA for the treatment of patients with RET fusion-positive locally advanced or metastatic NSCLC.

- **Avapritinib** (CS3007, KIT/PDGFRA inhibitor) – We have secured three (3) NDA approvals for this product.

  - On March 31, 2021, we received an NDA approval from the NMPA for the treatment of adults with unresectable or metastatic gastrointestinal stromal tumor (GIST) harboring a PDGFRA exon 18 mutation, including PDGFRA D842V mutation.

  - On April 29, 2021, we received the NDA approval license from the TFDA through an accelerated approval pathway for adults with unresectable or metastatic GIST harboring a PDGFRA D842V mutation.

  - On December 28, 2021, we received the NDA approval from the HK DoH for adults with unresectable or metastatic GIST harboring a PDGFRA D842V mutation.

  - In June 2021, our partner Blueprint Medicines announced that the U.S. FDA approved avapritinib for the treatment of adult patients with advanced systemic mastocytosis ("**Advanced SM**"), including aggressive SM, SM with an associated hematologic neoplasm and mast cell leukemia. We reached agreement with the NMPA about the registrational pathway for this indication in mainland China.

- **Ivosidenib** (CS3010, IDH1 inhibitor) – We have secured our first NDA approval for this product and achieved a positive topline readout.

  – On January 31, 2022, we received an NDA approval from the NMPA for the treatment of adults with relapsed or refractory acute myeloid leukemia ("**R/R AML**") with an isocitrate dehydrogenase 1 ("**IDH1**") mutation.

  – In August 2021, our partner, Servier, released positive topline data from the global phase III AGILE trial of ivosidenib for previously untreated IDH1 mutant acute myeloid leukemia ("**AML**"). The trial halted further enrolment due to compelling efficacy data. Servier announced the U.S. FDA approval for this indication in May 2022. We plan to submit an NDA for this indication to the NMPA in 2022.

- **Lorlatinib** (ROS-1 inhibitor)

  – We are working with Pfizer to jointly develop lorlatinib for c-ros oncogene 1 ("**ROS1**")-positive advanced NSCLC in Greater China. In December 2021, we received the IND approval from the NMPA. In May 2022, the first patient was enrolled in the pivotal study of lorlatinib for the treatment of ROS1-positive advanced NSCLC.

- **Nofazinlimab** (CS1003, PD-1 antibody)

  – In March 2022, we completed the enrolment for the global phase III trial of nofazinlimab in combination with LENVIMA® (lenvatinib) as a first-line treatment for patients with advanced HCC.

III. Research Efforts Harness Biologics Modular Potential and Reinforce Core IO Franchise

In 2021, we made significant progress developing two high-potential pre-clinical assets and advancing them toward clinical development. We received IND approval for our ROR1 antibody drug conjugate ("**ADC**") (CS5001) in the U.S., Australia and mainland China, and announced the commencement of the first-in-human ("**FIH**") clinical trial in the U.S.. Our PD-L1/4-1BB/HSA tri-specific molecule, CS2006, also received approval of its IND application and is proceeding toward first-in-human study in China in the near-term.

Beside these two molecules, we are developing additional Pipeline 2.0 assets. Precision medicine and immuno-oncology combinations remain our strategic focus. In the near-term, we will pursue developments in these areas using two emerging therapeutic modalities: ADCs which deliver cytotoxic agents to tumor with precision, and multi-specific biologics which are combinations of themselves. Additionally, we have systemically revised our research strategy to take advantage of the modular nature of biologics that allows "plug-and-play" of various modules into an antibody backbone to provide different specificity and functionality. This research strategy offers an efficient and streamlined approach to create a suite of FIC/BIC/FW molecules via collective efforts of in-house research and platform partner collaborations. In support of this effort, we recently recruited new talent with expertise in protein engineering, structural biology, and quantitative systems pharmacology.

Following this modular research framework, which we have fully implemented, we initiated and have in progress a total of over 10 discovery projects in 2021 that are currently in progress, including multi-specifics, ADCs, antibody-cytokine fusion molecules, and a proprietary platform for targeting otherwise undruggable intracellular proteins. Additionally, we are working with our new strategic partner, Singapore-based DotBio, to harness the company's proprietary technology platform to co-develop preclinical multi-specific assets. CStone will lead the design of the target combination based on the intended mechanism of action while DotBio will be responsible for engineering the molecules.

To further strengthen our in-house discovery research capability, we are establishing the CStone Global R&D Center, a brand-new research facility located adjacent to the manufacturing plant in Suzhou. The Center will be a cutting-edge discovery and translational research institute where state-of-the-art technical and functional platforms such as antibody discovery and development, systems pharmacology, and bioinformatics drive CStone's Pipeline 2.0 forward.

This new R&D facility will occupy approximately 16,000 square-meters of research and office space, an approximately six-fold increase from our current facilities. We have completed the design, begun construction and expect to commence operations by the fourth quarter of 2022.

In a further effort to spur innovation, we will dedicate space within this facility to house an incubator to foster the growth of biotech startups developing promising molecules and technological platforms to which we can have early access. We will broadly select candidates for the incubator based on their potential to contribute molecules for discovery platforms that would be highly complementary to our Pipeline 2.0 efforts. We are currently in active discussions with several incubator candidates, with DotBio slated to be the first among them, and expect to announce additional candidates soon.

Details of our progress are below.

- **CS2006** (NM21-1480, PD-L1/4-1BB/HSA tri-specific molecule): The FIH study is ongoing and includes sites in the U.S. and Taiwan, China. We anticipate the completion of monotherapy dose-escalation in the first half of 2022. We received the IND approval from the NMPA in September 2021.The enrolment for FIH studies of CS2006 in China is expected to commence in the second half of 2022.

- **CS5001** (LCB71, ROR1 ADC): We submitted an IND application to the U.S. FDA and received the SAFE TO PROCEED ("**STP**") letter in December 2021, and commenced the FIH study in March 2022. In addition, the Australia Ethics Committee ("**EC**") submission has also been achieved in December 2021. Additionally, we submitted IND application to the NMPA in March 2022 and received the approval in May 2022.

IV. Strategic Relationships Advance Commercialization Activities and Pipeline Development

We continue to grow and deepen relationships with key global strategic partners and to forge new partnerships to expand commercialization of our in-market and late-stage drugs, bolster our early-stage pipeline of potential First-in-Class (FIC)/Best-in-Class (BIC)molecules, and access technologies that complement our research and development efforts.

In November 2021, we formed a strategic collaboration agreement with Singapore-based DotBio to pursue joint design and engineering of up to three pre-clinical assets with BIC/FIC potential, harnessing DotBio's proprietary technology platform for prefabricating antibody modules. This collaboration, which includes CStone making an equity investment in DotBio, represents the first project to be settled at CStone Global R&D Headquarters and Industrialization Base in Suzhou. CStone will lead the design of target combination based on the intended mechanism of action and DotBio will lead the molecular design and engineering. It will become a source of innovative preclinical candidates to support CStone's Pipeline 2.0 strategy, further accelerating drug discovery with de novo design.

In November 2021, we established a new strategic partnership with Jiangsu Hengrui Pharmaceuticals Co., Ltd. ("**Hengrui**"). This strategic partnership marks another milestone in CStone's mission to introduce innovative oncology therapies in China after the commercial launch of two first-in-class drugs this year. CStone granted the exclusive rights to Hengrui for research, development, registration, manufacturing and commercialization of anti-CTLA-4 mAb (CS1002), a backbone immuno-oncology asset, in Greater China. CStone will retain the rights to develop and commercialize CS1002 outside of Greater China. CStone and Hengrui will partner respective R&D and commercial expertise to accelerate the development and commercialization of CS1002 to fully unleash its commercial value.

In addition, we broadened our relationship with Pfizer in 2021 with the agreement to co-develop Pfizer's late-stage oncology asset lorlatinib in second line ROS1-positive NSCLC in Greater China. This type of collaboration was envisioned in the original partnership that we announced in 2020. It is a significant advancement which not only expands our partnership with Pfizer, but also provides validation of our clinical and research strength. The plan for lorlatinib is to assess if this agent can provide benefits to the patients with relapsed ROS1-positive advanced NSCLC, which if positive would add a new therapeutic approach to our lung cancer pipeline. This program also bolsters the foundation of our relationship with a global biopharmaceutical leader and sets us up for future collaboration with them.

With EQRx, we are advancing discussions with regulatory bodies in multiple countries and jurisdictions all around the world – the U.S., the U.K., and the EU – regarding the registration of sugemalimab for NSCLC and ENKTL indications. We are collaborating with EQRx to explore the feasibility of extending indications for this drug in the global market including gastric cancer and esophageal cancer. In addition, we are working with EQRx on a global phase III study of nofazinlimab in hepatocellular carcinoma ("**HCC**") in the U.S. and major EU markets.

V. Other Business Updates

Capital Markets Access. Due to the strong performance in our shares during the 12 months by the end of 2021, our stock has been included in the Hang Seng Composite Index and the Hong Kong Stock Connect. This development is significant as it makes our shares accessible to investors in mainland China, and can foster greater trading in our shares, more efficient price discovery and additional liquidity for investors.

Manufacturing. Additionally, we have completed construction of our state-of-the-art manufacturing facility and began running pilot operations at the end of 2021 as projected. The manufacturing facility has a capacity of 26,000 liters for biologics and 1 billion tablets/capsules for small molecule drugs. We are also in the process of technology transfer for multiple products which will reduce costs and improve long-term profitability of our products.

FUTURE AND OUTLOOK

We are working to bring a number of significant clinical and commercial developments to fruition that will be catalysts for our growth in the rest of 2022. Additionally, to further strengthen CStone's in-house research capability, we anticipate the grand opening of the new global R&D center in the second half of 2022.

A detailed breakdown of expected developments for the remainder of 2022 is below.

Commercial Developments

Our commercial team is working rapidly to expand the addressable market for our products and maximize their commercial potential with a focus on the following:

- Improving market coverage organically by maximizing deployment effectiveness and leveraging digital platform.
- Improving diagnosis rate and accuracy via collaboration with next generation sequencing companies and National Pathology Quality Control Center.
- Strengthening physician education with focus on differentiation in clinical and safety profile.
- Strengthening accessibility with continued efforts in hospitals and DTPs listing.
- Improving affordability through pricing strategy optimization, commercial insurance/innovative payment plans and strategically considering National Reimbursement Drug List potential.

Business Highlights

Research & Development

NDA approvals expected:

- Sugemalimab: NDA approval in mainland China for stage III NSCLC.

NDA filings expected:

- Sugemalimab: NDA submission in mainland China for R/R ENKTL.
- Pralsetinib: NDA submission in mainland China for 1L RET fusion-positive NSCLC.
- Ivosidenib: NDA submission in mainland China for IDH1-mutant 1L AML.
- Sugemalimab: first NDA filing outside of China.

Topline readouts expected:

- Sugemalimab: first-line GC/GEJ.

First-in-human study initiation:

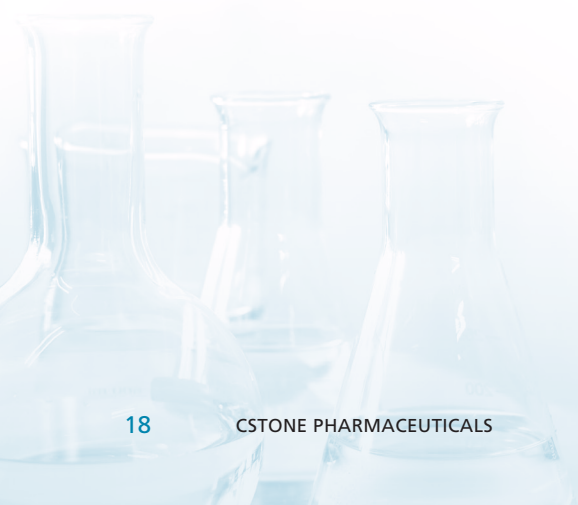
- CS2006: Commencement of first-in-human study in China.

Research catalysts:

- Advancing several of the compounds in our discovery projects into preclinical development.
- Completing the transfer of all laboratory work to the new CStone Global R&D Center.
- Launching our biotech incubator and selecting our first slate of candidate startups.

Manufacturing

Having launched pilot operations, in the current year we are progressing with the preparations for commercial-scale operations that will give us the ability to control the supply of our own products, whether for use in clinical trials or for commercial sales. The facility will have a production capacity of 26,000 litres for biologics and 1 billion tablets for small molecules. For 2022, we will continue the technology transfer for multiple products which will reduce costs and improve long-term profitability of our products.



Looking Beyond 2022

Our commercial, clinical, research and business development capabilities provide a solid basis for CStone to maximize shareholder value as we pursue ground-breaking science with a portfolio of in-market products, some of which secure approval and commercial distribution in global markets. To begin, we are further strengthening our commercial team and presence in the healthcare community that will facilitate the launch and uptake of our drugs in mainland China. We are continuing to expand and deepen our coverage of markets where prescriptions of precision medicines are concentrated.

Our clinical team is working with demonstrable efficiency to expand our portfolio of commercially available drugs and their total addressable market through a combination of indication expansions and geographic coverage. As a result, we are poised to establish a competitive presence in some of the most prevalent cancers.

At the research stage, we are carving out a competitive position in emerging modalities with potential FIC/BIC candidates that will reinforce our core IO and precision medicine franchise. Our improved pre-clinical innovation and development capabilities are on track to generate a greater and more sustainable volume of discovery programs and IND candidates that reach the post proof-of-concept stage.

Our business development efforts will seek to unlock the full value of CStone's business through strategic partnership and deal making. With its leadership and search and evaluation team situated in the U.S., they have a clear line of sight into the most promising innovations in oncology as well as more direct access to assets and partners for strategic collaboration. Our strategy will remain centered on pipeline building transactions with a focus on FIC or BIC assets with global rights. Equally significant, they will prioritize multi-dimensional collaborations and portfolio deals over single asset in-licensing, while remaining flexible for assets of high clinical and commercial value. In addition, business development will also play a critical role and maximizing asset value through global development and commercial partnerships for CStone assets.

We believe that focusing on these aspects of our business will give us significant and powerful levers for unlocking the full potential of our portfolio and realizing sustainable, long-term value creation. We are moving closer to producing a steady volume of commercially viable and clinically differentiated candidate molecules that can generate diverse and recurring revenue streams. As a result, we are actively shortening the pathway to achieving our ultimate vision of clinical success – to provide breakthrough therapies for cancer patients to help them live longer and healthier lives – while realizing the full commercial value of our innovative capacity and distinctive operating model.

Chairman's Statement

Dear Shareholders,

On behalf of our board, I am pleased to present our annual report of the Group for the year ended December 31, 2021.

As a full-fledged biopharma company, we achieved significant milestones in 2021. As of today, our four innovative drugs – first-in-class precision medicines GAVRETO®, AYVAKIT® and TIBSOVO® and potentially best-in-class immuno-oncology therapy sugemalimab – have been granted NDA approvals in the Greater China region.

We accelerated our commercialization agenda and posted eye-catching sales performance. Our well-established commercial operation system achieved a wide coverage of the hospitals across major cities.

We further demonstrated strong R&D capabilities. In 2021, we submitted six new drug applications and had seven oral presentations of our clinical data at global academic conferences. The clinical data from the registrational study of sugemalimab in stage III/IV non-small cell lung cancer were published on *The Lancet Oncology,* respectively. The registrational study of sugemalimab in the treatment of extranodal natural killer/T-cell lymphoma met the primary endpoint, and patient enrolment was completed in the trials of sugemalimab plus chemotherapy as the first-line treatment of gastric adenocarcinoma/gastro-esophageal junction adenocarcinoma and esophageal squamous cell carcinoma. With all these efforts, we are now well-positioned to further meet the needs of patients and maximize the commercial value of our products.

Our Pipeline 2.0 strategy was in full swing with breakthroughs made in our early-stage pipeline. We received the IND approvals of CS5001, a potential global best-in-class ROR1-targeting ADC, in the U.S., Australia and mainland China, as well as the IND approval of CS2006, a PD-L1/4-1BB/HSA tri-specific antibody, in mainland China. We also initiated and moved forward over 10 early discovery and technology platform projects.

We leveraged global strategic partnerships to foster commercialization and drug development. CStone Global R&D Headquarters and Manufacturing Base was inaugurated to bolster our in-house R&D capabilities.

In 2022, we will strive to maximize commercial potential with new product and indication launches and continued efforts in market penetration and expansion including further improving diagnostic rate, building scientific leadership, and strengthening the accessibility and affordability of our drugs. We have a diverse and balanced pipeline and will continue to focus on cancers with high incidence rates. We will gear up our Pipeline 2.0 strategy, and unleash the global potential of our portfolio. We will make every effort to provide innovative immuno-oncology therapies and precision medicines, and deliver on our commitment to addressing the unmet needs of cancer patients.

Last but not least, we would like to extend our heartfelt thanks and infinite respect to our clinical trial participants and investigators, patients and physicians, employees and shareholders. Their trust in CStone is the driving force for our continuous innovation every day.

Dr. Wei Li
Chairman and Non-executive Director

Suzhou, PRC, May 31, 2022

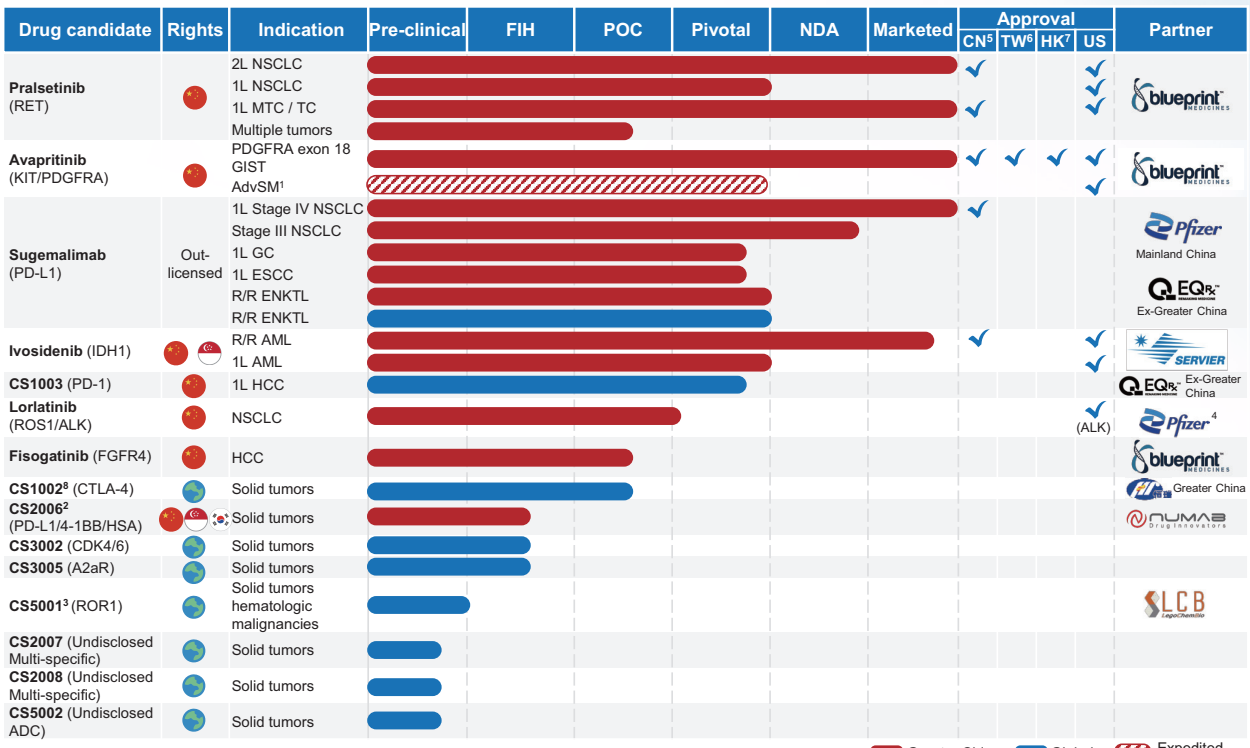
OUR VISION

Our vision is to become a world-renowned biopharmaceutical company leading the way to conquering cancer.

OVERVIEW

CStone is a biopharmaceutical company focused on researching, developing, and commercializing innovative immuno-oncology and precision medicines to address the unmet medical needs of cancer patients in China and worldwide. Established in 2015, CStone has assembled a world-class management team with extensive experience in innovative drug development, clinical research, and commercialization. The Company has built an oncology-focused pipeline of 15 drug candidates with a strategic emphasis on immuno-oncology combination therapies. Currently, CStone has received seven drug approvals in Greater China, including five in mainland China, one in Taiwan, China and one in Hong Kong, China. For details of any of the foregoing, please refer to the rest of this report and, where applicable, the prospectus of the Company and prior announcements published on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company.

Product Pipeline



Note: Assets status denote progress in the region noted in the column titled "Rights"; CN = Mainland China, FIH = First in Human POC = Proof of Concept, NSCLC = Non-small Cell Lung Cancer, MTC = Medullary Thyroid Cancer, TC = Thyroid Cancer, GIST = Gastrointestinal Stromal Tumor, AdvSM = Advanced Systemic Mastocytosis, GC = Gastric Cancer, ESCC = Esophageal Squamous Cell Carcinoma, R/R = Relapsed or Refractory, NKTL = Natural KILLER/T Cell Lymphoma, AML= Acute Myeloid Leukemia, HCC = Hepatocellular Carcinoma 1.POC was conducted in the U.S. and no clinical trials have been conducted in China; 2.CS2006 is currently under PhI dose escalation study in Taiwan, China & IND approved in mainland China; 3.CStone obtains the exclusive global right to lead development and commercialization of LCB71/CS5001 outside the Republic of Korea; 4. Co-development in Greater China; 5. Mainland China; 6. Taiwan, China; 7. Hong Kong SAR, China; 8. CStone retains the rights outside of Greater China

BUSINESS REVIEW

Commercial Operations

CStone has made a great leap forward in commercialization of its products over the past year with three product launches: GAVRETO® (pralsetinib), AYVAKIT® (avapritinib), and CEJEMLY® (sugemalimab). The rapid commercialization of products following regulatory approvals was made possible by the strong execution of our continuously growing commercial team, which includes approximately 300 people currently.

Our commercial team's efforts have enhanced the accessibility and affordability of our products on the market to bolster sales. They have continued a proactive engagement program to broaden and deepen ties to the healthcare community and critical stakeholder groups as part of preparations for launching our drug candidates. Our commercial team has established coverage of over 600 hospitals across more than 130 cities, building coverage of hospitals that account for approximately 70-80% of the relevant market of precision medicines. They also successfully secured the inclusion of our drugs in major commercial and government-administered insurance plans as part of an effort to broaden patient access to our drugs by making them more affordable. As a result of these efforts, we achieved a rapid sales ramp up of AYVAKIT® (avapritinib) and GAVRETO® (pralsetinib), generating combined net sales of RMB162.8 million within the first eight months following their launch.

Our partnerships with Pfizer and EQRx are cornerstones of our near-term commercial plans as well as our global aspirations. Through our successful collaboration with Pfizer, we are demonstrating the merits of our unique clinical development capabilities, and our attractiveness to multinational players who may potentially partner with us. Our successful collaboration with EQRx will bring our drugs into the largest global healthcare markets, and ensure they are competitively positioned.

Details on our full commercial efforts are set out below.

- ***GAVRETO® (pralsetinib)***

  – GAVRETO® (pralsetinib), an FIC RET inhibitor in China, has been approved by the NMPA for the treatment of adults with locally advanced or metastatic RET fusion-positive NSCLC previously treated with platinum-based chemotherapy. GAVRETO® is the first drug using the Bo'ao Le Cheng pilot program to allow the use of real-world data as support to accelerate the NMPA approval, which occurred within 6.5 months of the NDA's acceptance.

  – On July 3, 2021, we held the national launch meeting of GAVRETO with over 500 oncologists attending in person and more than 13,000 physicians joining online.

  – On November 21, 2021, we held a lung cancer symposium for Taiwan, Hong Kong and mainland China that engaged more than 7,000 HCPs to emphasize the importance of gene testing and the efficacy and safety data of GAVRETO in advanced RET fusion-positive NSCLC patients.

- GAVRETO is recommended by 2021 CSCO NSCLC Guidelines for the second-line treatment of RET fusion-positive NSCLC with level II recommendation and by 2021 Chinese Medical Association Guidelines for RET fusion-positive stage IV non-squamous NSCLC as the only therapy for second line and later line treatment. It is also recommended by 2022 China Anti-Cancer Association Guidelines for Thyroid Cancer.

- Testing for RET alterations is recommended by 2021 CSCO NSCLC Guidelines with level I recommendation and by 2021 Guidelines on Clinical Practice of Molecular Tests in NSCLC in China with level I recommendation.

- In Taiwan, China, we have strategically leveraged diagnostic companies for joint educational events to increase share of voice in lung cancer area, and for to have pralsetinib's first named patient program ("**NPP**") usage before license approval.

• ***AYVAKIT® (avapritinib)***

- AYVAKIT® (avapritinib), an FIC KIT/PDGFRA inhibitor, has been approved by the NMPA for the treatment of adults with unresectable or metastatic GIST harboring a PDGFRA exon 18 mutation, including PDGFRA D842V mutations. AYVAKIT has also been approved by the TFDA for the treatment of patients with unresectable or metastatic PDGFRA D842V mutant GIST. AYVAKIT took only 4 days to reach distribution partners from the time of arrival in China.

- On May 22, 2021, we held the national launch meeting of AYVAKIT with over 400 oncologists attending in person and more than 9,600 physicians joining online.

- We collaborated with the Chinese Medical Doctor Association Chinese College of Surgeons and the Chinese Society of Clinical Oncology Experts Committee on GIST to shape the paradigm of precision medicine and the ability to diagnose and treat GIST.

- AYVAKIT is recommended by 2021 CSCO GIST Guidelines for neoadjuvant therapy for PDGFRA exon18 GIST.

- AYVAKIT received approval for National Health Insurance application in Taiwan, China, which will be effective from June 1, 2022.

- ***Ivosidenib***

  – Our commercial platform is also well prepared for pre-launch activities for ivosidenib.

  – We held the advisory board meeting for ivosidenib to exchange clinical data with the top key opinion leaders from hematology and to convey our post-marketing strategy.

  – We established a combo sales team focused on avapritinib and ivosidenib to optimize our leveraged focus on gastrointestinal cancer and hematology.

  – Ivosidenib is recommended by 2021 Chinese Medical Association Guidelines for the diagnosis and treatment of adult acute myeloid leukemia.

- ***Sugemalimab***

  – We are working with Pfizer to support the commercialization in mainland China, and with EQRx to support the global launch (outside Greater China).

  – For the launch readiness in China, we worked together with Pfizer to sign off all commercial agreements and set up ordering process and commercial/PAP goods supply. In addition, we have opened distributor accounts and supported bidding progress to ensure patient accessibility upon the NDA approval.

Clinical Development

As of the date of this report, we have made significant progress with respect to our product pipeline.

Pralsetinib (CS3009, RET inhibitor)

- On March 24, 2021, the NMPA approved pralsetinib for the treatment of adults with locally advanced or metastatic RET fusion-positive NSCLC after platinum-based chemotherapy. Pralsetinib was the first approved selective RET inhibitor in China and the first approved precision therapy for CStone.

- In June 2021, the China registration-enabling cohort from the phase I/II ARROW trial of patients with RET fusion-positive NSCLC who have not been previously treated with systemic therapy showed consistency with previously announced global clinical data. We reached an agreement with the NMPA for the registration strategy for this indication, and we plan to submit a new NDA in 2022.

  – Primary efficacy data showed deep and durable anti-tumor activity for pralsetinib for the first-line treatment of patients with RET fusion-positive NSCLC, which was consistent with the global population. The overall safety was manageable, with no new safety signals detected.

  – These positive clinical data have been presented as a Late-Breaking Abstract Oral Presentation at the International Association for the Study of Lung Cancer ("**IASLC**") 2021 World Conference on Lung Cancer ("**WCLC**") in September 2021.

- On March 11, 2022, we received NDA approval from the NMPA for the treatment of patients with advanced or metastatic RET-mutant MTC and RET fusion-positive TC.

  – In April 2021, the NMPA accepted the NDA with Priority Review Designation for the treatment of patients with advanced or metastatic RET-mutant MTC and RET fusion-positive TC. In June 2021, we announced China registration-enabling cohort data from the phase I/II ARROW trial of patients with RET-mutant MTC who have not been previously treated with systemic therapy, which was generally consistent with previously announced global clinical data.

  – Primary efficacy data showed deep and durable anti-tumor activity for pralsetinib in Chinese patients with advanced or metastatic RET-mutant MTC, consistent with previously reported results in the global ARROW study. The safety data observed in Chinese patients was similar to results shown in global patients. These positive clinical data have been presented as a Late-Breaking Oral Presentation at the 90th Annual Meeting of the American Thyroid Association ("**ATA**") in October 2021.

- In February 2022, the TFDA accepted the NDA for the treatment of patients with RET fusion-positive locally advanced or metastatic NSCLC, RET-mutant MTC and RET fusion-positive TC.

- In March 2022, the HK DoH accepted the NDA for the treatment of patients with RET fusion-positive locally advanced or metastatic NSCLC.

Avapritinib (CS3007, KIT/PDGFRA inhibitor)

- On March 31, 2021, we received an NDA approval from the NMPA for the treatment of adults with unresectable or metastatic GIST harboring a PDGFRA exon 18 mutation, including PDGFRA D842V mutations.

  – The phase I/II bridging study data presented at the 2021 European Society for Medical Oncology ("**ESMO**") World Congress on Gastrointestinal Cancer showed avapritinib was generally well-tolerated and had promising anti-tumor activity in Chinese patients with advanced GIST harboring a PDGFRA D842V mutation, and avapritinib has also shown potential for the treatment of fourth-line and later Chinese GIST patients.

- On April 29, 2021, we received the NDA approval license from the TFDA through an accelerated approval pathway for adults with unresectable or metastatic GIST harboring a PDGFRA D842V mutation.

- On December 28, 2021, we received the NDA approval from the HK DoH for adults with unresectable or metastatic GIST harboring a PDGFRA D842V mutation.

- In June 2021, our partner, Blueprint Medicines announced that the U.S. FDA has approved avapritinib for the treatment of adult patients with Advanced SM. We reached an agreement with the NMPA of China about the registrational pathway for this indication in China. We plan to submit an IND to the NMPA in 2022.

Ivosidenib (CS3010, IDH1 inhibitor)

- On January 31, 2022, we received an NDA approval from the NMPA for the treatment of adults with R/R AML with an IDH1 mutation. Ivosidenib was the first IDH1 inhibitor approved in China for the treatment of patients with R/R AML.

  – In July 2021, the China registrational trial of ivosidenib in patients with R/R AML with an IDH1 mutation met the pre-specified endpoints. The results demonstrated efficacy and manageable safety of ivosidenib, which were consistent with results shown in global patients. This positive clinical data has been presented as a proffered presentation at the ESMO Virtual Congress 2021 in September 2021.

  – In August 2021, the NMPA accepted the NDA of ivosidenib for the treatment of adults with R/R AML with a susceptible IDH1 mutation and granted priority review.

- In August 2021, our partner, Servier, released positive topline data from the global phase III AGILE study of ivosidenib in combination with azacitidine in patients with previously untreated IDH1 mutant AML. The trial halted further enrollment due to compelling efficacy data. We plan to submit an NDA for this indication to the NMPA in 2022.

  – The phase III data from the global AGILE study presented at the 2021 American Society of Hematology ("**ASH**") Annual Meeting showed that ivosidenib in combination with the chemotherapy azacitidine significantly improved event-free survival and overall survival in adults with previously untreated IDH1-mutated AML compared to azacitidine plus placebo.

  – In May 2022, Servier announced the U.S. FDA approval of ivosidenib in combination with azacitidine for patients with newly diagnosed IDH1-mutated AML.

Sugemalimab (CS1001, PD-L1 antibody)

- Sugemalimab is an investigational monoclonal antibody directed against PD-L1 that has been approved by the NMPA in China. As a fully-human, full-length anti-PD-L1 monoclonal antibody, sugemalimab mirrors the natural G-type IgG4 human antibody, which may potentially reduce the risk of immunogenicity and toxicity in patients, a potential unique advantage and differentiation factor compared to similar drugs. As of the date of this report, we are conducting five registrational trials for sugemalimab, including one phase II registrational study for lymphoma and four phase III registrational studies in stage IV NSCLC, stage III NSCLC, gastric cancer, and esophageal cancer, respectively.

- In December 2021, we received the NDA approval from the NMPA for sugemalimab in combination with pemetrexed and carboplatin as first-line treatment of patients with metastatic non-squamous NSCLC, with no EGFR or ALK genomic tumor aberrations, and in combination with paclitaxel and carboplatin as first-line treatment of patients with metastatic squamous NSCLC. In January 2022, the first prescription of sugemalimab was issued.

  – In June 2021, final PFS analysis of the phase III trial of sugemalimab as a first-line treatment for stage IV squamous and non-squamous NSCLC showed that sugemalimab plus chemotherapy demonstrated further improvement in PFS. In addition, data in longer follow-up further demonstrated that sugemalimab plus chemotherapy brought patients encouraging overall survival. This favorable final PFS data was presented as a Late-Breaking Abstract at the IASLC 2021 WCLC. The data was also published in the world-leading oncology journal *The Lancet Oncology*, of which the impact factor is 41.3.

  – In January 2022, the pre-specified OS interim analysis showed that sugemalimab in combination with chemotherapy significantly and clinical meaningfully improved the overall survival in stage IV NSCLC patients, and the data will be presented in a poster session at 2022 ASCO Annual Meeting. The positive OS data will be used for ex-China filling for sugemalimab.

- In September 2021, the China NMPA accepted the NDA for sugemalimab as a consolidation therapy in patients with unresectable stage III NSCLC without disease progression after concurrent or sequential chemoradiotherapy. We expected to receive the NDA approval in the first half of 2022.

  – In May 2021, the phase III trial of sugemalimab in patients with stage III NSCLC as monotherapy in the maintenance setting following concurrent or sequential chemoradiotherapy met its primary endpoint. This innovative trial design reflects real-world clinical practices and demonstrates sugemalimab's distinct ability to cover a much broader patient population among PD-(L)1 treatments.

  – Sugemalimab was the first anti-PD-1/PD-L1 monoclonal antibody worldwide to successfully improve PFS in patients with stage III NSCLC without disease progression after concurrent or sequential chemoradiotherapy. Subgroup analyses demonstrated that sugemalimab was associated with clinical benefit regardless of whether patients received concurrent or sequential chemoradiotherapy prior to sugemalimab. Subgroup analyses showed a clinical benefit across histology subtypes and PD-L1 expression levels. The highly positive clinical data was presented as a Late-Breaking Abstract at the ESMO Virtual Congress 2021. The data was also published in the world-leading oncology journal *The Lancet Oncology*.

  - In May 2022, we announced that the final PFS analysis of the registrational study further demonstrates sugemalimab's robust efficacy and significant clinical benefits shown in interim analysis. Subgroup analysis demonstrated clinical benefits in patients receiving either concurrent or sequential chemoradiotherapy prior to sugemalimab. Sugemalimab had a well-tolerated safety profile and no new safety signals were observed. The detailed results will be presented at an upcoming international academic conference.

- If the NDA is approved in China for stage III NSCLC, sugemalimab will become the world's first anti-PD-1/PD-L1 monoclonal antibody covering both locally advanced/unresectable (stage III) and metastatic (stage IV) NSCLC patients. We are working closely with EQRx on regulatory discussions for the indications of stage III NSCLC, stage IV NSCLC, and ENKTL in multiple territories, including the U.S., the U.K. and the EU. For stage IV NSCLC, we expect the first NDA filing outside of the U.S. in the second half of 2022. Meanwhile, constructive conversations with the U.S. FDA are ongoing to gain greater clarity on the regulatory path. For ENKTL, sugemalimab has received the BTD from the U.S. FDA and we expect the BLA filing in 2023.

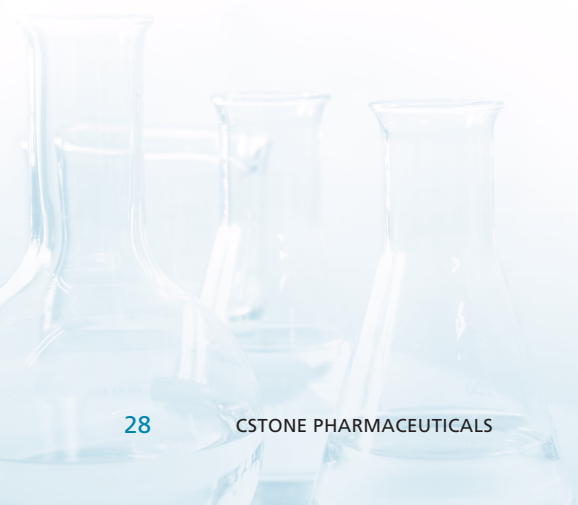
- In January 2022, the registrational trial of sugemalimab in patients with R/R ENKTL met the primary endpoint. We plan to submit an NDA to the NMPA for R/R ENKTL in the near term and will present the topline results in an oral abstract session at 2022 ASCO Annual Meeting.

  - Results showed that sugemalimab significantly enhanced the objective response rate ("**ORR**"), as assessed by the Independent Radiology Review Committee ("**IRRC**"), compared with historical control. The investigator-assessed ORR was consistent with the evaluation by IRRC. Sugemalimab also demonstrated a well-tolerated safety profile in patients with R/R ENKTL, and no new safety signals were observed.

  - We completed the enrolment for the phase II registrational trial of sugemalimab as monotherapy for the treatment of ENKTL in May 2021. We received the BTD from the NMPA in February 2021 for treating patients with R/R ENKTL.

- In January 2022, we completed the enrolment for the phase III trial of sugemalimab in combination with standard-of-care chemotherapies for first-line treatment of patients with unresectable or metastatic gastric cancer.

- In January 2022, we completed the enrolment for the phase III trial of sugemalimab in combination with standard-of-care chemotherapies for first-line treatment of patients with unresectable or metastatic esophageal squamous cell cancer.



CAUTIONARY STATEMENT REQUIRED BY RULE 18A.05 OF THE LISTING RULES: WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET SUGEMALIMAB, OR ANY OF OUR PIPELINE PRODUCTS, SUCCESSFULLY.

Nofazinlimab (CS1003, PD-1 antibody)

- In March 2022, we completed the enrolment for the global phase III trial of nofazinlimab in combination with LENVIMA® (lenvatinib) in patients with advanced HCC. The phase Ib study of nofazinlimab combined with lenvatinib as first-line treatment in Chinese patients will be presented for online publication in 2022 ASCO Annual Meeting.

Lorlatinib (ROS-1 inhibitor)

- We are working with Pfizer to jointly develop lorlatinib for ROS1-positive advanced NSCLC in Greater China. We received the IND approval from NMPA in December 2021. In May 2022, the first patient was enrolled in the pivotal study of lorlatinib for the treatment of ROS1-positive advanced NSCLC. This is the first pivotal trial of lorlatinib for the treatment of ROS1-positive NSCLC in the world.

Fisogatinib (CS3008, FGFR4 inhibitor)

- We have received positive feedback from the Center for Drug Evaluation ("**CDE**") regarding the single-arm registration strategy in China for the third-line and later-line treatment of hepatocellular carcinoma(HCC) with fisogatinib monotherapy, based on the phase I trial data.

CS2006 (NM21-1480, PD-L1/4-1BB/HSA tri-specific molecule)

- The first-in-human study of CS2006 is ongoing and includes sites in the U.S. and Taiwan, China. We anticipate completion of monotherapy dose-escalation in the first half of 2022. We received an IND approval from the NMPA in September 2021 and expect a much-abbreviated phase I study to start in China in the second half of 2022.

- In April 2022, the preclinical data was presented at the 2022 Annual Meeting of the American Association for Cancer Research ("**AACR**"). The results from pharmacokinetic/pharmacodynamic modelling demonstrated that binding affinity optimization of CS2006 allowed optimal PD-L1 blockade and 4-1BB stimulation concomitantly, at a broad dose range thereby and facilitating dose-finding in the clinic. In addition, the results showed that CS2006 was efficacious as monotherapy in both hot and cold tumor models. These data provide translational support for the ongoing clinical development of CS2006 as a potential best-in-class, next-generation immune-oncology agent.

CS1002 (CTLA-4 antibody)

- In July 2021, we presented the preliminary data of the phase I study of CS1002 in combination with CS1003 at ESMO 2021, followed by an update of the study at ESMO-IO 2021. Our results showed that the combination of CS1002 and CS1003, when given at different dosing schedules, had a very manageable safety profile and demonstrated encouraging anti-tumor responses in patients with anti-PD-(L)1-naïve, pretreated MSI-H/dMMR tumors, anti-PD-(L)1-refractory melanoma, and anti-PD-(L)1-refractory HCC.

- In view of proof-of-concept data shown in the above-mentioned phase I trial of CS1002, we have established a strategic partnership with Hengrui to develop, manufacture and commercialize CS1002 in Greater China. CStone maintains the development and commercialization rights of CS1002 in regions outside of Greater China. In May 2022, Hengrui received the IND approval from the NMPA.

CS5001 (LCB71, ROR1 ADC)

- In December 2021, we received the IND approval from the U.S. FDA. The Australia EC submission has also been achieved.

- In March 2022, the first patient was enrolled in the U.S. for the international multi-center phase I clinical trial of CS5001, representing a remarkable milestone for CStone's Pipeline 2.0 strategy.

- Additionally, we submitted IND application to the NMPA in March 2022 and received the approval in May 2022.

Trademarks

Blueprint Medicines, AYVAKIT, GAVRETO and associated logos are trademarks of Blueprint Medicines Corporation.

Research

Research is at the heart of our mission to pioneer breakthroughs in science and translate them into safe and effective therapies. It is where our passion for science intersects with our desire to have a meaningful impact on the lives of suffering patients. It is also a crucial point of distinction from other biotech firms.

Starting in 2020 and continuing into 2022, we took several steps to improve our pre-clinical pipeline and internal sources of innovation. We consolidated leadership of discovery and early development functions under our Chief Scientific Officer, who has over 20 years of experience in translational oncology research spanning cytotoxics, targeted agents and immunotherapies. In addition, we bolstered our team with new research professionals. We formed a dedicated cross-functional innovation sourcing and strategy team to drive the design and selection of candidates. And we have continued to cultivate a strong network of external partners – academic labs, CROs and other commercial partners – that can provide specific resources to advance and operationalize ideas and innovation.

The results of our efforts are evident in the progress of our pre-clinical drug candidates, CS5001 in particular. CS5001 is an ADC composed of a human monoclonal antibody targeting the tyrosine kinase-like orphan receptor 1 ("**ROR1**"), which has prevalent expression in a variety of cancers including leukemia, non-Hodgkin lymphoma, breast, lung, and ovarian cancers, and is also as a promising target for the treatment of both hematological and solid malignancies. We presented the pre-clinical data of CS5001 as a Late-Breaking Abstract at the AACR-NCI-EORTC Virtual International Conference on Molecular Targets and Cancer Therapeutics in October 2021. Importantly, we received the STP letter from the U.S. FDA for the IND of CS5001 in December 2021. The Australia EC submission has also been achieved in December 2021. In March 2022, the first patient was enrolled in the U.S. for the international multi-center phase I clinical trial. Additionally, we submitted IND application to the NMPA in March 2022 and received the approval in May 2022.

In addition, our global discovery collaboration with DotBio is intended to expand our emerging portfolio of next-generation innovative therapeutics. Together, we will jointly develop up to three preclinical first-in-class or best-in-class next-generation antibody therapies using DotBio's proprietary technology. This partnership bolsters CStone's Pipeline 2.0 strategy by adding a powerful new source of organic and transformative innovation to our R&D engine.

To further strengthen our in-house discovery research capability, we are establishing the CStone Global R&D Center, a brand-new research facility located adjacent to the manufacturing plant in Suzhou. The Center will be a cutting-edge discovery and translational research institute where state-of-the-art technical and functional platforms such as antibody discovery and development, systems pharmacology, and bioinformatics drive CStone's Pipeline 2.0 forward. It will also house a business incubator to foster the growth of biotech startups developing promising molecules and technological platforms to which we can have early access. We will broadly select candidates for the incubator based on their potential to contribute molecules for discovery platforms that would be highly complementary to our Pipeline 2.0 efforts. DotBio is slated to be the first with additional candidates to be announced soon.

Finally, we have systemically revised our research strategy to harness the modular nature of biologics that allows "plug-and-play" of various modules into an antibody backbone to provide different specificity and functionality. Such research strategy offers an efficient and streamlined approach for CStone to create a suite of FIC/BIC/FW molecules via collective efforts of in-house research and platform partner collaborations. Following this modular research framework, we have initiated and have in progress a total of over 10 discovery projects in 2021 including multi-specifics, ADCs, antibody-cytokine fusion molecules, as well as a proprietary platform for targeting otherwise undruggable intracellular proteins.

Business Development and Strategic Partnerships

Our business development team plays a vital strategic role in the growth of our business. They will pursue partnerships to expand commercialization of our in-market and late-stage drugs, bolster our early-stage pipeline of potential FIC/BIC molecules, and access technologies that complement our research and development efforts. In addition, they are supporting the development of our existing strategic partnerships including Pfizer and EQRx.

As of the date of this report, we have forged new partnerships and made significant progress with respect to our existing partnerships.

- ***DotBio***

  – CStone and DotBio signed a global discovery collaboration to develop up to three pre-clinical first-in-class or best-in-class next-generation antibody therapies for which CStone would lead the design of the target combination based on the intended mechanism of action and DotBio will lead the design and engineering of the molecules. As part of this collaboration, CStone will take an equity position in DotBio, a biotech company specializing in next generation antibody therapies. This partnership bolsters CStone's Pipeline 2.0 strategy by adding a powerful new source of organic and transformative innovation to its R&D engine.

- ***Hengrui***

  – We established a new strategic partnership with Hengrui. We signed an exclusive licensing agreement on the Greater China right of anti-CTLA-4 mAb (CS1002) in November 2021. Under the terms of the agreement, CStone will be eligible for an upfront payment and potential milestone payments up to US$200 million in addition to double-digit royalties. Hengrui will obtain the exclusive rights for research, development, registration, manufacturing, and commercialization of CS1002 in Greater China. CStone will retain the rights to develop and commercialize CS1002 outside of Greater China. This strategic partnership could help us to fully unlock the commercial potential of this asset.

- ***Pfizer***

  – In December 2021, we received the first approval of sugemalimab for stage IV NSCLC including both squamous and non-squamous patients. CStone and Pfizer have been working closely to prepare for a successful launch for sugemalimab by educating the healthcare community about its BIC clinical results and leveraging Pfizer's leading commercial infrastructure and deep expertise in China.

  – In June 2021, CStone and Pfizer jointly announced that they have selected the first late-stage oncology asset for co-development under the strategic collaboration agreement formed in 2020. The two companies will conduct a pivotal clinical trial of lorlatinib for ROS1-positive advanced NSCLC. This step marks another milestone for CStone and Pfizer in their growing strategic partnership, which includes joint efforts to selectively introduce oncology therapies into the Greater China region. Additionally, it bolsters CStone's growing pipeline.

- ***EQRx***

  – CStone is working closely with EQRx to advance regulatory discussions in multiple countries and jurisdictions outside of Greater China to discuss regulatory pathways for sugemalimab in multiple indications.

  – For the global study of nofazinlimab in HCC, CStone and EQRx enrolled patients in the U.S. and major EU markets.

In addition to the above, we continue to engage potential partners for multiple partnership opportunities that will accelerate our value creation, including in-licensing, out-licensing and strategic partnerships.

The Impact of the Novel Coronavirus ("COVID-19")

During the Reporting Period, the impact of COVID-19 on our business operations was immaterial. The Company followed government mandates and took various mitigation measures to ensure employees' safety and minimize disruptions to business operations.

Critical aspects of our business remain functional. To date, the pandemic has not hindered recruitment for our registrational trials, and we have been able to ensure continuous treatment and monitoring to mitigate the risk of patient dropout. Also, we are expanding hospital and physician coverage in areas adjacent to the regions impacted by COVID-19 where patients may seek treatment. We are using digital platforms where possible, such as for virtual KOL engagement, managing long-term treatment of patients, and resolving logistics and supply issues.

However, lockdowns in some parts of East and North China since March 2022 have led to disruptions to physician-patient interactions and posed challenges to supply chain management. These will likely have an impact on our operating performance in the second quarter of this year, though it is difficult to quantify at present. The extent of the impact will depend on the development of the pandemic and public health responses, which are beyond our control. We will continue to monitor the situation closely and will provide an update with our interim results announcement.

FINANCIAL REVIEW

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Revenue	**243,718**	1,038,832
Cost of revenue	**(106,832)**	(241,421)
Gross profit	**136,886**	797,411
Other income	**45,773**	51,671
Other gains and losses	**(134,188)**	(179,419)
Research and development expenses	**(1,304,945)**	(1,404,684)
Selling and marketing expenses	**(363,788)**	(142,150)
Administrative expenses	**(297,596)**	(342,508)
Finance costs	**(2,242)**	(1,320)
Loss for the year	**(1,920,100)**	(1,220,999)
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**399**	(1,274)
Fair value gain on debt instruments at fair value through other comprehensive income ("**FVTOCI**")	**–**	31
Reclassified to profit or loss upon redemption of debt instruments at FVTOCI	**–**	(31)
Other comprehensive income (expense) for the year	**399**	(1,274)
Total comprehensive expense for the year	**(1,919,701)**	(1,222,273)
Non-IFRS measures:		
Adjusted loss for the year	**(1,697,429)**	(864,976)

Revenue. Our revenue was RMB243.7 million for the year ended December 31, 2021, composed of RMB162.8 million in sales of pharmaceutical products, representing sales of the Company's newly launched pharmaceutical products (avapritinib and pralsetinib), and RMB80.9 million in license fee income, representing a decrease of RMB957.9 million from RMB1,038.8 million in the previous year as a result of decrease in the one-off license fee income.

Other Income. Our other income decreased by RMB5.9 million from RMB51.7 million for the year ended December 31, 2020 to RMB45.8 million for the year ended December 31, 2021. This was primarily due to reduced interest income.

Other Gains and Losses. Our other gains and losses decreased by RMB45.2 million from losses of RMB179.4 million for the year ended December 31, 2020 to losses of RMB134.2 million for the year ended December 31, 2021. This decrease was primarily due to decreased foreign exchange losses for the year ended December 31, 2021, which was offset by losses on fair value changes of other investments classified as financial assets at FVTPL.

Research and Development Expenses. Our research and development expenses decreased by RMB99.8 million from RMB1,404.7 million for the year ended December 31, 2020 to RMB1,304.9 million for the year ended December 31, 2021. This decrease was primarily attributable to (i) a decrease of RMB56.6 million in milestone fee and third party contracting cost from RMB1,088.7 million for the year ended December 31, 2020 to RMB1,032.1 million for the year ended December 31, 2021 for different phases of our clinical trials; and (ii) share-based payment expenses decreased by RMB36.1 million and other employee cost decreased by RMB9.8 million.

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Employee cost	**267,470**	313,402
Milestone fee and third party contracting cost	**1,032,138**	1,088,706
Others	**5,337**	2,576
Total	**1,304,945**	1,404,684

Administrative Expenses. Our administrative expenses decreased by RMB44.9 million from RMB342.5 million for the year ended December 31, 2020 to RMB297.6 million for the year ended December 31, 2021. This was primarily due to the decrease of RMB69.4 million in employee cost from RMB238.0 million for the year ended December 31, 2020 to RMB168.6 million for the year ended December 31, 2021.

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Employee cost	**168,570**	238,022
Professional fees	**65,256**	57,927
Rental expenses	**2,475**	3,160
Depreciation and amortization	**17,347**	14,594
Others	**43,948**	28,805
Total	**297,596**	342,508

Selling and Marketing Expenses. Our selling and marketing expenses increased by RMB221.6 million from RMB142.2 million for the year ended December 31, 2020 to RMB363.8 million for the year ended December 31, 2021. The increase was primarily attributable to sales force build-up and marketing activities for product launches.

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Employee cost	**182,251**	86,244
Professional fees	**62,775**	24,486
Others	**118,762**	31,420
Total	**363,788**	142,150

Finance Costs. The finance costs increased by RMB0.9 million from RMB1.3 million for the year ended December 31, 2020 to RMB2.2 million for the year ended December 31, 2021, primarily due to the increase in bank borrowings during the Reporting Period.

Other Comprehensive Income. Our other comprehensive income increased by RMB1.7 million from other comprehensive expenses of RMB1.3 million for the year ended December 31, 2020 to other comprehensive income of RMB0.4 million for the year ended December 31, 2021.

NON-IFRS MEASURES

To supplement the Group's consolidated financial statements, which are presented in accordance with the IFRS, the Company also uses adjusted loss for the year and other adjusted figures as additional financial measures, which are not required by, or presented in accordance with, the IFRS. The Company believes that these adjusted measures provide useful information to shareholders and potential investors in understanding and evaluating the Group's consolidated results of operations in the same manner as they help the Company's management.

Adjusted loss for the year represents the loss for the year excluding the effect of certain non-cash items and onetime events, namely the share-based compensation expenses. The term adjusted loss for the year is not defined under the IFRS. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Group's results of operations or financial condition as reported under IFRS. The Company's presentation of such adjusted figure may not be comparable to a similarly titled measure presented by other companies. However, the Company believes that this and other non-IFRS measures are reflections of the Group's normal operating results by eliminating potential impacts of items that the management do not consider to be indicative of the Group's operating performance, and thus facilitate comparisons of operating performance from period to period and company to company to the extent applicable.

The table below sets forth a reconciliation of the loss to adjusted loss during the years indicated:

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB' 000*
	(Audited)	(Audited)
Loss for the year	**(1,920,100)**	(1,220,999)
Added:		
Share-based payment expenses	**222,671**	356,023
Adjusted loss for the year	**(1,697,429)**	(864,976)

The table below sets forth a reconciliation of the research and development expenses to adjusted research and development expenses during the years indicated:

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Research and development expenses for the year	**(1,304,945)**	(1,404,684)
Added:		
Share-based payment expenses	**122,835**	158,972
Adjusted research and development expenses for the year	**(1,182,110)**	(1,245,712)

The table below sets forth a reconciliation of the administrative and selling and marketing expenses to adjusted administrative and selling expenses during the years indicated:

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Administrative and selling and marketing expenses for the year	**(661,384)**	(484,658)
Added:		
Share-based payment expenses	**99,836**	197,051
Adjusted administrative and selling and marketing expenses for the year	**(561,548)**	(287,607)

Employees and Remuneration Policies

The following table sets forth a breakdown of our employees as at December 31, 2021 by function:

Function	**Number of employees**	**% of total number of employees**
Research and Development	204	33.39
Sales, General and Administrative	407	66.61
Total	611	100.0

As of December 31, 2021, we had 263 employees in Shanghai, 64 employees in Beijing, 90 employees in Suzhou and 194 employees in other regions of the PRC and overseas. Our employees' remuneration comprises salaries, bonuses, employee provident fund and social security contributions and other welfare payments. In accordance with applicable Chinese laws, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has always adopted a prudent treasury management policy. The Group has taken a multi-source approach to fund our operations and meet development demands for capital, including service and milestone and upfront payments from our collaboration partners, bank borrowings, investments from other third parties and proceeds from our listing on the Stock Exchange.

On February 26, 2019, 186,396,000 Shares of US$0.0001 each were issued at a price of HK$12.00 per Share in connection with the Company's IPO on the Stock Exchange. The proceeds of HK$146,294.76 representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$2,236,605,705.24, (before deduction of the expenses relating to the Company's IPO) were credited to the share premium account. The translation from US$ to HK$ is made at the exchange rate set forth in the H.10 weekly statistical release of the Federal Reserve System of the United States as of February 26, 2019.

On September 30, 2020 (before trading hours), the Company entered into the share subscription agreement with Pfizer, pursuant to which Pfizer has conditionally agreed to subscribe for an aggregate of 115,928,803 subscription shares at the subscription price of approximately HK$13.37 per Share. The gross proceeds from the allotment and issue of the subscription shares were approximately US$200.0 million (equivalent to approximately RMB1,355.9 million).

As of December 31, 2021, our cash and cash equivalents and time deposits were RMB1,603.4 million, as compared to RMB3,383.4 million as of December 31, 2020. The decrease was mainly due to the research and development expenses, as well as the administrative and selling and marketing expenses.

Gearing Ratio

Gearing ratio is calculated using total liabilities divided by total assets and multiplied by 100%. As at December 31, 2021, our gearing ratio was 46.9% (as at December 31, 2020: 21.5%).

Charge on Assets

As of December 31, 2021, the Group did not pledge any group assets.

OTHER FINANCIAL INFORMATION

Significant Investments, Material Acquisitions and Disposals

From July to November 2021, the Company placed orders with CMB International Securities Limited ("**CMBIS**") to subscribe in notes linked to a segregated portfolio held under a company registered in Cayman Islands (the "**Investment**"). The majority of the segregated portfolio was used to invest in the shares of companies listed on the PRC, Hong Kong and the US exchange, with the remainder invested in certain private equity and held in cash.

The aggregate amount committed to the Investment was approximately HKD227.7 million (equivalent to approximately RMB189.2 million). Based on the Investment's underlying securities valuation, the fair value of the Investment as at December 31, 2021 was RMB122,895,000, representing approximately 5.4% of the total assets of the Group as at December 31, 2021. As such, the unrealized loss of the Investment for the year ended December 31, 2021 amounted to RMB64,214,000. The Investment was made without the Board's knowledge or approval, and the Company aims to redeem the Investment as soon as practicable. For details, please refer to the announcement of the Company dated May 31, 2022.

Save as disclosed above, as at December 31, 2021, we did not hold any significant investments. As at the date of this report, we have no specific future plan for material investments or capital assets, as well as material acquisitions or disposals of subsidiaries, associates and joint ventures. We will make further announcement in accordance with the Listing Rules, where applicable, if any material investments and acquisition opportunities materialize.

Foreign Exchange Risk

Our financial statements are expressed in RMB, but certain of our cash and cash equivalents, restricted bank deposits, time deposits, other receivables, other investments classified as financial assets measured at fair value through profit or loss and trade and other payables are denominated in foreign currencies, and are exposed to foreign currency risk. We currently do not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Bank Loans and Other Borrowings

On January 7, 2020, the Group obtained two new bank loan facilities amounting to RMB175 million and RMB25 million, respectively, for the purpose of the construction of the facilities. During the year ended December 31, 2021, the Group has drawn down RMB96,215,000 and repaid RMB10,577,000 of principal and interest in accordance with the payment schedules.

Contingent Liabilities

As of December 31, 2021, we did not have any material contingent liabilities.

DIRECTORS

Executive Director

Dr. Frank Ningjun Jiang (江寧軍), M.D., Ph.D., aged 61, was appointed as CEO in July 2016, a member of the Board in November 2016 and Chairman in August 2018. Dr. Jiang ceased to act as Chairman on May 31, 2022.

Under Dr. Jiang's leadership, the Company has been focusing on developing and commercializing innovative immuno-oncology and precision medicine drugs for cancer patients in China and worldwide. Since inception in 2016, the Company has established a portfolio of 15 drug candidates, including five late phase assets, and initiated 30 clinical trials, of which 15 are registrational. In February 2019, the Company was successfully listed on the Stock Exchange, setting the record for shortest time between company inception and public listing in Hong Kong as of the date of the Listing.

Dr. Jiang serves as a member of the scientific advisory board of Novagenesis Therapeutix (HK) Limited starting from July 2020.

Prior to joining our Company, Dr. Jiang served as the global vice president and head of Asia Pacific research and development at Sanofi, a company listed on NASDAQ (stock code: SNY) and EPA (stock code: SAN) ("**Sanofi**"), covering China, Japan and 12 other countries. During his career at Sanofi from July 2002 to June 2016, he held a series of leadership and management positions, with responsibilities ranging from global clinical research to regional R&D strategies. He also led a 21,000 patient megatrial that resulted in the global registration of the blockbuster drug Lovenox. In the last five years with Sanofi, he oversaw 79 clinical trials and obtained 30 NDAs in the Asia Pacific region. Prior to Sanofi, Dr. Jiang was a clinical research physician at Eli Lilly and Company, a company listed on the NYSE (stock code: LLY), and led a global phase II trial for an anti-sepsis drug.

Dr. Jiang was certified as a physician in the United States by the Educational Commission for Foreign Medical Graduates in May 1995.

Dr. Jiang received his M.D. from Nanjing Medical University (南京醫科大學) (formerly known as Nanjing Medical College (南京醫學院)) in Jiangsu, China in December 1982 and a Ph.D. in immunology from University of British Columbia in Canada in November 1992. He went on to complete a postdoctoral fellowship in clinical chemistry and a clinical residency in internal medicine at Washington University School of Medicine in the United States. He subsequently served there as a faculty for the Internal Medicine and Emergency Medicine departments.

Non-executive Directors

Dr. Wei Li (李偉), Ph.D., aged 50, has been our Director since December 2015. Dr. Li was re-designated as a non-executive Director on October 29, 2018, and was re-elected as a non-executive Director on June 23, 2021. Dr. Li took up the role of Chairman on May 31, 2022.

Dr. Li has over 20 years of experience in the biotech industry. He serves as a partner of Creacion Ventures since April 2020 and the managing partner of 6 Dimensions Capital, L.P. since October 2017 and is a founding partner and the managing partner of WuXi Healthcare Ventures II, L.P. since July 2015. Dr. Li has been an executive director of Ocumension Therapeutics (歐康維視生物), a company listed on the Stock Exchange (stock code: 1477) since April 2018.

During his scientific research career, Dr. Li has first-authored numerous scientific publications in journals including Science, Proceedings of the National Academy of Sciences, and Journal of Biological Chemistry.

Dr. Li received a Ph.D. in chemistry from Harvard University in the United States in November 1998, and an MBA from the J. L. Kellogg School of Management at Northwestern University in the United States in June 2003. He graduated with a bachelor of science in chemical physics from the University of Science and Technology of China (中國科學技術大學) in Anhui, China in July 1993.

Mr. Kenneth Walton Hitchner III, aged 62, was appointed as our non-executive Director with effect from December 10, 2021. Mr. Hitchner will hold office from December 10, 2021 until the next following general meeting of the Company, at which he will be eligible for re-election in accordance with and subject to the Memorandum and the Articles of Association of the Company.

Mr. Hitchner has more than 30 years of experience in corporate finance. He had served as the Chairman and Chief Executive Officer of The Goldman Sachs Group, Inc. in Asia Pacific Ex-Japan before his retirement in 2019. He was also a member of Goldman Sachs' Management Committee and co-chaired its Asia Pacific Management Committee.

During the period from 2013 to 2017, Mr. Hitchner had served as President of Goldman Sachs in Asia Pacific Ex-Japan. Prior to relocating to Hong Kong, he was global head of Goldman Sachs' Healthcare Banking Group and global co-head of its Technology, Media and Telecom Group. He was named managing director in 2000 and partner in 2002. He became head of the global medical device banking practice in 1998 and head of the global pharmaceutical banking practice in 2001. He began his career with Goldman Sachs' Corporate Finance Department in 1991.

Mr. Hitchner has been serving as an independent non-executive director of WuXi Biologics (Cayman) Inc., a company listed on the Main Board of the Stock Exchange (stock code: 2269), since June 2020. Mr. Hitchner has been serving as a director of the alternative investment management firm Elements Advisors SPV since May 2020. Mr. Hitchner has also been serving as a senior advisor to a leading global life sciences investor Valiance Asset Management since November 2020. He has joined Global Advisory Board of the global early-stage venture capitalist Antler since January 2021. He has also been serving as a senior advisor of WuXi AppTec Co., Ltd.* (無錫藥明康德新藥開發股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603259) and the Main Board of the Stock Exchange (stock code: 2359) ("**WuXi AppTec**"), since February 2020. Mr. Hitchner has been serving as an independent non-executive director of Provident Acquisition Corp., a company listed on NASDAQ (stock code: PAQC), since January 7, 2021. Mr. Hitchner has also been serving as the chairman of the board of HH&L Acquisition Co., a company listed on the New York Stock Exchange (stock code: HHLA), since February 11, 2021. Mr. Hitchner obtained a bachelor's degree in arts from the University of Colorado in 1982 and a master's degree in business administration (MBA) as a merit fellow from Columbia University Business School in 1992.

Mr. Yanling Cao (曹彥凌), aged 38, was a Director from April 1, 2016 to March 27, 2017. Mr. Cao was appointed as our non-executive Director with effect from May 15, 2019.

Mr. Cao has been serving as a non-executive director of WuXi Biologics (Cayman) Inc. (a company listed on the Stock Exchange with stock code: 2269), Viela Bio, Inc. (a company listed on NASDAQ with stock code: VIE), Hygeia Healthcare Holdings Co., Limited (海吉亞醫療控股有限公司) (a company listed on the Stock Exchange with stock code: 6078) and Ocumension Therapeutics (歐康維視生物) (a company listed on the Stock Exchange with stock code: 1477) since May 2016, February 2018, June 2019 and June 2019, respectively. He has also been serving as the partner of Boyu Capital Advisory Company Limited (博裕投資顧問有限公司) and has been responsible for sourcing, evaluating and managing private equity transactions, with a particular focus in the healthcare industry. Mr. Cao served as an independent non-executive director at JW (Cayman) Therapeutics Co. Ltd (藥明巨諾(開曼)有限公司) (a company listed on the Stock Exchange with stock code: 2126) from May 2020 to December 2021, and a non-executive director at Antengene Corporation Limited (德琪醫藥有限公司) (a company listed on the Stock Exchange with stock code: 6996) from February 2019 to December 2021. From December 2007 to January 2011, Mr. Cao served as an investment professional of General Atlantic LLC and was responsible for private equity and venture capital investment. From July 2006 to November 2007, Mr. Cao served as an investment banker of Goldman Sachs Asia LLC and was responsible for providing investment banking advisory services to clients in Asia.

Mr. Cao obtained a bachelor's degree in economics and mathematics from Middlebury College in the United States in June 2006.

Mr. Xianghong Lin (林向紅), aged 51, was appointed as our non-executive Director with effect from November 30, 2020, and was re-elected as a non-executive Director on June 23, 2021.

Mr. Lin has been the chairman of the board of directors and a member of the investment committee of Suzhou Equity Investment Fund Management Co. Ltd. (蘇州股權投資基金管理有限公司) since December 2017; the chairman of the board of directors and a member of the investment committee of Kaiyuan Guochuang Capital Management Co., Ltd. (開元國創資本管理有限公司) since March 2017; and the chief executive officer of Suzhou Private Capital Investment Holdings Co., Ltd. (蘇州民營資本投資控股有限公司) since April 2016. Mr. Lin was the president of Suzhou Oriza Holdings Corporation (蘇州元禾控股股份有限公司) from October 2015 to March 2016 and the chairman of the board of directors and the president of Suzhou Oriza Holdings Ltd. (蘇州元禾控股有限公司) from September 2007 to October 2015. Prior to that, he served as the chairman of the board of directors and the president of China-Singapore Suzhou Industrial Park Ventures Co., Ltd. (中新蘇州工業園區創業投資有限公司) from November 2001 to September 2007. From April 2000 to November 2001, he served as various positions of China-Singapore Suzhou Industrial Park Development Co., Ltd. (中新蘇州工業園區開發有限公司), including the deputy general manager of the finance department and the general manager of the investment department.

Mr. Lin served as a non-executive director of Guangzhou Hangxin Aviation Technology Co., Ltd. (廣州航新航空科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300424) from January 2019 to April 2020. Mr. Lin has been a member of the venture capital fund professional committee of Asset Management Association of China (中國證券投資基金業協會創業投資基金專業委員會) since June 2015, a member of the first session of Science and Technology Innovation Advisory Committee (科技創新諮詢委員會) of the Shanghai Stock Exchange since April 2019, a member of the investment decision committee of the China Integrated Circuit Industry Investment Fund (國家集成電路產業投資基金) since 2014, and a director of the Xi'an Jiaotong University Education Foundation (西安交通大學教育基金會) since 2011.

Mr. Lin obtained bachelor's degree in auditing from the Xi'an Jiaotong University in July 1992, a master degree in agricultural economic management from the University of Suzhou in June 1999 and a doctorate degree in management science and engineering from Xi'an Jiaotong University in June 2009.

Mr. Edward Hu (胡正國), aged 59, was appointed as our non-executive Director and a member of the strategic committee, both with effect from July 9, 2021. Mr. Hu will hold offices from July 9, 2021 until the next following general meeting of the Company, at which he will be eligible for re-election in accordance with and subject to the Memorandum and the Articles of Association of the Company.

Mr. Hu is the vice chairman, the global chief investment officer and an executive director of WuXi AppTec. Mr. Hu is primarily responsible for the overall business and management of WuXi AppTec. Mr. Hu joined WuXi AppTec in August 2007 and was appointed as an executive director in March 2017. Mr. Hu served as a co-chief executive officer of WuXi AppTec from August 2018 to May 2020. He served as the chief financial officer from March 2016 to January 2019.

- From February 2014 to June 2021, he served as a non-executive director of WuXi Biologics (Cayman) Inc., a company listed on the Main Board of the Stock Exchange (stock code: 2269) and was primarily responsible for providing guidance on the business strategy and financial management.

- From May 2018 to March 2021, he served as a director of Viela Bio Inc., a company listed on NASDAQ (stock code: VIE) since October 2019.

- From August 2007 to December 2015, he served as the chief financial officer and chief operating officer of WuXi PharmaTech (Cayman) Inc., a company previously listed on the New York Stock Exchange and was responsible for the financial and operational management.

- From October 2000 to July 2007, he served on various roles to become a senior vice president and chief operating officer of Tanox Inc., a biopharmaceutical company previously listed on NASDAQ (stock code: TNOX, acquired by Genentech Inc. in August 2007) and primarily engaged in discovering and developing antibody therapeutic drugs, and was responsible for company operations, quality control, finance and information technology.

- From April 1998 to October 2000, he served as a business planning manager of Biogen Inc., a global biotechnology company listed on NASDAQ (stock code: BIIB) and primarily engaged in developing, marketing and sales of biopharmaceuticals for neurologic and immune diseases, and was responsible for business planning and budget management of its research and development division.

- From May 1996 to December 1998, he served as a senior financial analyst of Merck, and was responsible for financial planning and analysis.

Mr. Hu obtained a bachelor's degree in physics from Hangzhou University, currently known as Zhejiang University (浙江大學) in the PRC in July 1983. He also obtained a master's degree in chemistry and a master's degree of business administration from Carnegie Mellon University in the United States in May 1993 and May 1996, respectively.

Independent Non-executive Directors

Dr. Paul Herbert Chew, M.D., aged 70, has been an INED since February 14, 2019, and was re-elected as an INED on June 23, 2021.

Dr. Chew is currently the adviser chief medical officer and he is on the board of directors for Phesi, an innovative firm that optimizes clinical trial design with novel technology. Dr. Chew is also the adviser chief medical officer for CorMedix, Inc, utilizing a taurolidine-based platform to prevent infection in high-risk patients. Dr. Chew serves on the advisory boards at the Center for Public Health, George Washington School of Public Health as well as ArisGlobal, a leading life sciences software provider that speeds drug development. He has served as a member of the board of trustees for the U.S. Pharmacopeia that sets quality standards for U.S. drugs, foods and dietary supplements, enforced by the U.S. FDA but whose standards are also followed by more than 140 countries.

From 2013 to 2016, Dr. Chew served as the global chief medical officer for Sanofi, overseeing medical affairs, regulatory affairs, drug safety, and pharmaco-economics. From 2016 to 2018, Dr. Chew has also been the chief medical officer for Omada Health, a premier Bay area company in digital therapeutics for the management of chronic disease. Dr. Chew has been on the board of external advisors for the University of North Carolina School of Public Health. He has served as a member of the Institute of Medicine Value & Science-Driven Healthcare Roundtable. He is board certified in Internal Medicine and Cardiovascular Disease. Dr. Chew was also a member of the Cardiology and Radiology faculty at the Johns Hopkins Hospital and he holds a doctor of medicine and a bachelor of arts degree from the Johns Hopkins University School of Medicine in the United States.

Mr. Ting Yuk Anthony Wu (胡定旭), GBS, JP, aged 67, has been an INED since February 14, 2019, and was re-elected as an INED on June 23, 2020.

Since March 2019, Mr. Wu has been the chairman and a non-executive director of Clarity Medical Group Holding Limited (清晰醫療集團控股有限公司), a company listed on the Stock Exchange (stock code: 1406) on February 18, 2022. Mr. Wu has been an independent non-executive director of Sing Tao News Corporation Limited (stock code: 1105) on June 3, 2021. He has been an independent non-executive director of China Resources Medical Holdings Company Limited (華潤醫療控股有限公司), a company listed on the Stock Exchange (stock code: 1515) since August 2018 and chairman of the board of directors from August 2018 to April 2021. He has been an independent non-executive director of Power Assets Holdings Limited (電能實業有限公司), a company listed on the Stock Exchange (stock code: 0006) since June 2014. He has been an independent non-executive director of China Taiping Insurance Holdings Company Limited (中國太平保險控股有限公司), a company listed on the Stock Exchange (stock code: 0966) from August 2013. He has been an independent non-executive director of Guangdong Investment Ltd. (粵海投資有限公司), a company listed on the Stock Exchange (stock code: 0270) since August 2012. He has been an independent non-executive director of Venus Medtech (Hangzhou) Inc. (杭州啟明醫療器械股份有限公司), a company listed on the Stock Exchange (stock code: 2500), since November 2018. He has been an independent non-executive director of Ocumension Therapeutics (歐康維視生物), a company listed on the Stock Exchange (stock code: 1477) since June 2020.

Between March 2015 and August 2018, Mr. Wu was the chairman and an executive director at Sincere Watch (Hong Kong) Limited, a company listed on the Stock Exchange (stock code: 0444), where he also acted as deputy chairman from October 2016 to August 2018. Between July 2011 and September 2014, he served as a director of Fidelity Funds. He served as an independent non-executive director of Agricultural Bank of China Limited (中國農業銀行股份有限公司), a company listed on the Stock Exchange (stock code: 01288), from January 2009 to June 2015. Mr. Wu joined the Hong Kong Hospital Authority (醫院管理局) in 1999 and was formerly its chairman from 2004 to 2013. Between 2010 and 2012, he was and the chairman of the Chamber Council and is now a member of the consultation committee of the Hong Kong General Chamber of Commerce. He was a partner of Ernst & Young from July 1985 to December 2005 and served as chairman of Ernst & Young Far East and China Practice from January 2000 to December 2005.

Mr. Wu was admitted as a member of the Institute of Chartered Accountants in England and Wales in November 1979 and became a fellow in October 1990. He was also admitted as a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Mr. Wu was appointed by the Government of Hong Kong as Justice of the Peace and awarded Gold Bauhinia Star in 2004 and 2008, respectively. Mr. Wu finished a Foundation Course in Accountancy in Teesside Polytechnic in the United Kingdom in July 1975. Mr. Wu has also served in different capacities in the following organizations:

- as the honorary chairman of The Institute of Certified Management Accountants (Australia) Hong Kong Branch since January 2016
- as a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development from March 2018 to June 2022
- as a member of the 12th and 13th Standing Committee of the Chinese People's Political Consultative Conference National Committee
- as an expert advisor of the 2nd Chinese Medicine Reform and Development Advisory Committee of the State Administration of Traditional Chinese Medicine (國家中醫藥管理局第二屆中醫藥改革發展專家諮詢委員會) since December 2017

Mr. Hongbin Sun (孫洪斌), aged 46 has been an INED since February 14, 2019, and was re-elected as an INED on June 23, 2021.

Mr. Sun has over 20 years of finance experience. He has been an independent non-executive director of New Century Healthcare Holding Co., Limited (新世紀醫療控股有限公司), a company listed on the Stock Exchange (stock code: 1518), since December 2016. He was appointed as an independent non-executive director of Mobvista Inc. (匯量科技有限公司), a company listed on the Stock Exchange (stock code: 1860) since July 2020. He has been the chief financial officer of MicroPort Scientific Corporation (微創醫療科學有限公司), a company listed on the Stock Exchange (stock code: 0853), since September 2010 and served as its executive director from July 2010 to September 2012. He was the deputy financial director of Otsuka (China) Investment Co., Ltd. (大冢(中國)投資有限公司) from January 2004 to December 2005 and then worked as its general manager from January 2006 to August 2010. From August 1998 to January 2004, he was an assistant manager in the audit department of KPMG Huazhen (畢馬威華振會計師事務所) in Shanghai.

Mr. Sun has been a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since December 2009 and also a chartered financial analyst in September 2009.

He received his bachelor's degree in accounting from Shanghai Jiao Tong University (上海交通大學) in China in July 1998.

SENIOR MANAGEMENT

Dr. Frank Ningjun Jiang (江寧軍), M.D., Ph.D., aged 61, has been our CEO since July 2016. For further details, please refer to "Directors – Executive Director" in this section.

Dr. Jianxin Yang (楊建新), M.D., Ph.D., aged 58, has been our senior vice president and chief medical officer since December 2016. In this role, he is responsible for developing and implementing the overall clinical strategy.

Dr. Yang has over 23 years of experience in biomedical research and clinical development of oncology drugs in the U.S. and China. Prior to joining us, he served as the senior vice president and head of clinical development at BeiGene, Ltd. (NASDAQ: BGNE, HKSE: 6160) from July 2014 to December 2016. He led BeiGene, Ltd.'s clinical team in clinical development of its oncology pipeline, and developed the first anti-PD-1 mAb originated in China.

Prior to joining BeiGene, Ltd., Dr. Yang served as a medical director at Covance Inc. from September 2011 to July 2014. He further worked in Pfizer Inc. for global research and development, and served as a research scientist in cancer genomics division at Tularik Inc. (acquired by Amgen Inc. in 2004).

Throughout his career, Dr. Yang has made significant contributions to the successful development of several anticancer drugs. He is also the author of over 30 publications and the inventor of 9 patents. In 2015, he was enrolled as a "Distinguished Expert" in the "1000 Talents Program" run by the Organization Department of the Communist Party of China (中國共產黨中央委員會組織部) and the Ministry of Human Resources and Social Security (人力資源和社會保障部) of the PRC. In July 2015, Dr. Yang was honored as a "High-Caliber Talent from Overseas" by the Organization Department of the CPC Beijing Central Municipal Committee (中共北京市委組織部) and the Beijing Municipal Bureau of Human Resources and Social Security (北京市人力資源和社會保障局).

Dr. Yang received a bachelor's degree in medicine from Hubei Medical College (湖北醫學院) in Hubei, China in July 1985 and a master's degree in pathophysiology from Nanjing Medical College (南京醫學院), (currently known as Nanjing Medical University (南京醫科大學)) in Nanjing, China in July 1988. He then received his Ph.D. training in biochemistry and molecular biology with Nobel Laureates Drs. Michael S. Brown and Joseph L. Goldstein at the University of Texas Southwestern Medical Center at Dallas, U.S. in June 1995. He conducted his postdoctoral training in chemical biology with Dr. Stuart L. Schreiber at Harvard University in the United States in 1997.

Dr. Ngai Chiu Archie Tse (謝毅釗), M.D., Ph.D., aged 55, is our senior vice president and chief scientific officer and joined us in December 2018. Upon joining our Group, Dr. Tse established the department of translational medicine and early development. In this role, he is responsible for the clinical development of early-stage assets up to proof of concept. He also leads the translational medicine/biomarkers, molecular diagnostics, and clinical pharmacology functions to support the progression of our pipeline, as well as the scientific advisory board to facilitate development and execution of our R&D strategy.

Dr. Tse is an accomplished medical and scientific leader with over 20 years of global oncology experience in the clinic and pharmaceutical institutions. Prior to joining us, Dr. Tse was a distinguished scientist (executive director) at Merck from September 2015 to December 2018 in which role he oversaw the early clinical development of a number of novel agents in the immune-oncology pipeline, spanning various mechanisms and action and modalities. The programs he played a key role in spanned various mechanisms of action and modalities included, but not limited to, anti-CTLA4, STING agonists, bispecific Nanobodies, novel myeloid targets, oncolytic virus and personalized cancer vaccines. From January 2010 to August 2015, he served at Daiichi Sankyo Pharma Development, a division of Daiichi-Sankyo, Inc., where his last title was senior director, clinical development. From July 2003 to December 2009, Dr. Tse served at the U.S. Memorial Sloan Kettering Cancer Center ("**MSKCC**") as clinical assistant in the medicine/gastrointestinal oncology department, and during the same period he was also a faculty member at the MSKCC affiliated Weill Cornell Medical School.

Dr. Tse obtained certification from American Board of Internal Medicine in medical oncology from November 2003 to December 2013 and in general internal medicine from August 2000 to December 2010.

Dr. Tse obtained his M.D. and a Ph.D. in biochemistry & molecular biology from the University of Southern California in the United States in May 1997 and May 2002, respectively.

Dr. Josh Zhou (周遊), MD., aged 41, is our Greater China General Manager and Head of Commercial and joined us in April 2022. In his role, he has the overall responsibilities for commercial functions including marketing, sales, post-launch medical affairs, market access, commercial and supply chain management, and business excellence. Dr. Zhou has more than 16 years of working experience in China's pharmaceutical industry at multinational corporations and global strategy consulting firms. He is a seasoned leader with extensive experience in oncology and rare diseases. Prior to joining us, Dr. Zhou worked as Chief Marketing Officer at Sanofi Pasteur (China), led a 4-pillar-consisted team to successfully deliver multiple innovative signature programs.

From 2013 to 2021, Dr. Zhou worked at Novartis Oncology (China) and served successively as Head of Rare Disease Franchise and BU Head of Oncology Established Brands. He was in charge of several hundreds of millions of US dollars in business, successfully drove the growth of rare disease brands through precision diagnostics, market education and partnerships in rare diseases eco-system, and introduced innovative business models to ensure sustained growth of mature brands.

From 2011 to 2013, Dr. Zhou worked as Director of Hospital Portfolio Management and then Senior Analyst at China Resources Company. From 2007 to 2011, he worked at McKinsey & Company as a core member of Pharma-Healthcare Practice, and the clients he served included leading pharmaceuticals, medical device manufacturers, health insurance companies, and distributors in China or Europe.

Dr. Zhou started his career as a physician at Peking Union Medical College Hospital, and he obtained his medical doctor degree from Peking Union Medical College.

Mr. Sanhu Wang (王三虎), aged 51, is our senior vice president of government and regulatory affairs and joined us in June 2019. In this role, he is responsible for planning, setting and executing government and regulatory affairs strategy and leading the government and regulatory affairs department.

Before joining us, Mr. Wang worked at Eleme, a subsidiary of Alibaba Group Holding Ltd. (a company listed on The New York Stock Exchange, stock code: BABA, and the Stock Exchange, stock code: 9988), as the chief food safety officer for three years and was responsible for government affairs and food safety supervision. Prior to his time at Eleme, Mr. Wang worked for Shenzhen Mindray Bio-Medical Electronics Co., Ltd. (a company listed on Shenzhen Stock Exchange, stock code: 300760) as the vice general manager of public affairs. Before working in the private sector, Mr. Wang worked at China Food and Drug Administration (CFDA, later changed its name to NMPA) for 11 years and served as the director of division of development and planning, associate director of department of general administration, assistant director of department of emergency management and deputy inspector of department of food safety supervision. Before joining CFDA, Mr. Wang was the associate director of the health bureau of Fengtai District, Beijing and had more than 10 years of experience in the field of public health.

Mr. Wang was selected by the Bureau of Foreign Expert Affairs for an education program at Duke University for public policy from June 2005 to December 2005 and he was also selected by the U.S. Government for the humphrey scholars program in public health at Emory University from August 2013 to August 2014.

Mr. Wang obtained his bachelor's degree in preventive medicine from Capital Medical University in July 1994 and master's degree in public health from Hebei Medical University in July 2000.

Mr. Michael J. Choi, MBA, aged 47, has been our Chief Business Officer since May 2021. In this role, he is responsible for business development, alliance management and corporate strategy.

Mr. Choi is an accomplished business executive with over 24 years of experience in the life science industry. Prior to joining us Mr. Choi was VP, Head of Business Development at Sun Pharma Advanced Research Corporation (SPARC) from September 2019 to April 2021. In this role, he led business development, commercial strategy and investor relations and oversaw the strategy and operations of SPARC as a member of the Executive Leadership Team. From March 2011 to July 2019, Mr. Choi served at Pfizer, Inc. in various business development roles including most recently as Business Alliance Lead for China, Japan, Asia-Pacific, Latin-America and Canada at Pfizer Essential Health. While at Pfizer, Mr. Choi completed over 40 transactions across 6 continents. From April 2009 to March 2011, Mr. Choi served as the Strategy Leader for the Molecular and Cell Biology business unit at Life Technologies (now Thermo Fisher). Mr. Choi started his career as a Research Associate at the Columbia University College of Physicians and Surgeons before starting his business career as a strategy focused Management Consultant at various firms such as PricewaterhouseCoopers – Management Consulting Services, Envision Consulting Group (now IQVIA), and Frankel Group (now Oliver Wyman).

Mr. Choi obtained his MBA in Finance and Economics from Columbia Business School in New York City in May 2004 and Bachelor of Arts in History with a pre-medical concentration from Columbia College in New York City in May 1996.

Mr. Jun Cheng (程君), aged 42, is our vice president of finance and joined us in March 2022. In his role, he has the overall responsibilities for financial functions including finance, information technology, clinical and general procurement. Mr. Cheng has more than 20 years' experience across all finance functions with exposure to both biotech and MNCs. He is a seasoned leader with extensive cross-functional experience and an outstanding track record with the highest standard of professionalism and integrity. Prior to joining us, Mr. Cheng worked as VP Finance & Control – Innovation Platform for over 8 years at HUTCHMED (China) Limited, a company listed on the Nasdaq Global Select Market, the Stock Exchange of Hong Kong Limited and the London Stock Exchange's AIM market (Nasdaq/AIM:HCM; HKEX:13). He drove high performance in meeting financial objectives utilizing his deep understanding of business drivers and proactively addressing risks and opportunities. He also led the team to support the NASDAQ and HK IPO process and establishing IT infrastructure.

From 2009 to 2013, Mr. Cheng worked in SIMPLOT AUSTRALIA as a Divisional Finance Manager, where he participated in the acquisition of frozen meals business from NESTLE Australia as financial lead, then set up a new Chilled & Emerging business division. Jun started his career at Nestle China and worked there for 8 years across a number of finance and control functions in the Dongguan coffee factory and Beijing Head Office.

Mr. Cheng obtained a bachelor's degree from South China Agricultural University and is a member of CPA Australia.

Other than the working relationships in the Company, there was no other relationship between any of the Directors or senior management of the Company in respect of finance, business and family or in other material aspects.

The Directors present their report and the audited Consolidated Financial Statements for the Reporting Period.

PRINCIPAL ACTIVITIES

During the Reporting Period, the principal activities of the Group included the developing and commercializing of innovative immuno-oncology and molecularly targeted drugs to address significant unmet medical needs in cancer treatment. There was no significant change in the nature of the Group's principal activities during the Reporting Period and up to the date of this report.

Particulars of the Company's principal subsidiaries as at December 31, 2021 are set out in Note 34 to the Consolidated Financial Statements.

BUSINESS REVIEW

A fair review of the business of the Group, the outlook of future development of the business of the Group as well as a discussion and analysis of the Group's performance during the Reporting Period and the material factors underlying its financial performance and financial position as required by section 388(2) and Schedule 5 to the Companies Ordinance can be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report. The financial risk management objectives and policies of the Group are set out in Note 32b to the Consolidated Financial Statements.

For further details, please refer to the section headed "Management Discussion and Analysis" of this report.

RESULTS AND DIVIDENDS

Details of the consolidated loss of the Group for the Reporting Period and the Group's financial position as at December 31, 2021 are set out in the Consolidated Financial Statements.

The Board does not recommend payment of a dividend for the year ended December 31, 2021. No dividend was paid or declared by the Company or other members of the Group during the year ended December 31, 2021.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to achieving environmental sustainability. The Group endeavours to comply with the relevant laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, waste reduction and energy saving. For instance, the in-house facilities of the Group operate in compliance with the relevant environmental rules and regulations. The Group reviews its environmental policies on a regular basis.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules, the Company's environmental, social and governance report has been published on May 31, 2022.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group's financial conditions or results materially different from the expected or historical results can be categorised into the following areas: (i) risks relating to our financial position and need for additional capital; (ii) risks relating to our business, comprising (a) risks relating to clinical development of our drug candidates, (b) risks relating to extensive government regulation, (c) risks relating to commercialization of our drugs and drug candidates, (d) risks relating to our intellectual property rights and (e) risks relating to our reliance on third parties; (iii) risks relating to our operations; and (iv) risks relating to our doing business in China, as described below:

Risks Relating to Our Financial Position and Need for Additional Capital

- We have incurred significant net losses and net operating cash outflows since our inception, and we anticipate that we will continue to incur net losses and net operating cash outflows for the foreseeable future and may never become profitable.

- We have net operating cash outflow during the Reporting Period.

- We may need additional capital to meet our operating cash requirements, and financing may not be available on terms acceptable to us, or at all.

- We have a limited operating history, which may make it difficult to evaluate our current business and predict our future performance. The risks involved in our business may cause potential investors to lose substantially all of their investment in our business.

- We will need to obtain additional financing to fund our operations, and if we are unable to obtain such financing, we may be unable to complete the development and commercialization of our primary drug candidates.

- Raising additional capital may cause dilution to our Shareholders, restrict our operations or require us to relinquish rights to our technologies or drug candidates.

Risks Relating to Our Business

Risks Relating to Clinical Development of Our Drug Candidates

- We depend substantially on the success of our drug candidates, all of which are in pre-clinical or clinical development. If we are unable to successfully complete clinical development, obtain regulatory approval and commercialize our drug candidates, or experience significant delays in doing so, our business will be materially harmed.

- If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.

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

- If clinical trials of our drug candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our drug candidates.

- Immuno-oncology therapies including PD-1/PD-L1 antibodies may cause undesirable side effects.

- We may not be successful in developing, enhancing or adapting to new technologies and methodologies.

Risks Relating to Extensive Government Regulation

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

- The regulatory approval processes of the National Medical Products Administration, U.S. FDA, European Medicines Agency and other comparable regulatory authorities are lengthy, time-consuming and inherently unpredictable. If we are ultimately unable to obtain regulatory approval for our drug candidates, our business will be substantially harmed.

- If we fail to comply with our obligations in the agreements under which we license intellectual property rights from third parties or otherwise experience disruptions to our business relationships with our licensors, we could be required to pay monetary damages or could lose license rights that are important to our business.

- Our failure to obtain or renew certain approvals, licenses, permits and certificates required for our business may materially and adversely affect our business, financial condition and results of operations.

- If we participate in compassionate use programs, current regulatory discrepancies among competent authorities of different countries may lead to increased risk of adverse drug reaction and serious adverse events being produced from the use of our products.

- Changes in government regulations or in practices relating to the pharmaceutical and biopharmaceutical industries, including healthcare reform in China, and compliance with new regulations may result in additional costs.

- Pilot Program in respect of Foreign Investment Risk Review Modernization Act of 2018 may restrict our ability to acquire technologies and assets in the United States that are material to our commercial success.

- The absence of data and market exclusivity for NMPA-approved pharmaceutical products could increase the risk of early generic competition with our products in China. There may be new laws and regulations promulgated by the PRC government, with respect to data and market exclusivity. The newly amended Patent Law of the People's Republic of China (the "**Amended PRC Patent Law**"), which became effective on June 1, 2021, introduces both early resolution of patent disputes and patent term extension mechanisms. However, the corresponding implementation rules of the Amended PRC Patent Law are still in draft form and have yet to be released, which could bring about uncertainties concerning the scope, timeline, and implementation of the patent term extension mechanism. The Company will closely monitor the progress and continue to evaluate the potential impact on the drug products.

- Any of our future approved drug candidates will be subject to ongoing or additional regulatory obligations and continued regulatory review, which may result in significant additional expense and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our drug candidates.

- If safety, efficacy, or other issues arise with any medical product used in combination with or to facilitate the use of our drug candidates, we may be unable to market such drug candidate or may experience significant regulatory delays.

- Even if we are able to commercialize any approved drug candidates, the drugs may become subject to national or other third-party reimbursement practices or unfavorable pricing regulations, which could harm our business.

- Adverse drug reactions and negative results from off-label use of our products could materially harm our business reputation, product brand name, financial condition and expose us to liability.

- The illegal and/or parallel imports and counterfeit pharmaceutical products may reduce demand for our future approved drug candidates and could have a negative impact on our reputation and business.

Risks Relating to Commercialization of Our Drugs and Drug Candidates

- If we are not able to obtain, or experience delays in obtaining, required regulatory approvals, we will not be able to commercialize our drug candidates, and our ability to generate revenue will be materially impaired.

- Our future approved drug candidates may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success.

- If we are unable to develop marketing and sales capabilities or enter into agreements with third parties to market and sell our drug candidates, we may not be able to generate product sales revenue.

- We face substantial competition, which may result in others discovering, developing or commercializing competing drugs before or more successfully than we do.

- The market opportunities for our drugs and drug candidates may be limited to those patients who are ineligible for or have failed prior treatments and may be small.

- We may be subject, directly or indirectly, to applicable anti-kickback, false claims laws, physician payment transparency laws, fraud and abuse laws or similar healthcare and security laws and regulations in the United States and other jurisdictions, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.

Risks Relating to Our Intellectual Property Rights

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

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

- Our in-licensed patents and other intellectual property may be subject to further priority disputes or to inventorship disputes and similar proceedings. If we or our licensors are unsuccessful in any of these proceedings, we may be required to obtain licenses from third parties, which may not be available on commercially reasonable terms or at all, or to cease the development, manufacture, and commercialization of one or more of the drug candidates we may develop, which could have a material adverse impact on our business.

- We may not be able to protect our intellectual property rights throughout the world or prevent unfair competition by third parties.

- If we are sued for infringing, misappropriating, or otherwise violating intellectual property rights of third parties or engaging in unfair competition, such litigation could be costly and time-consuming and could prevent or delay us from developing or commercializing our drug candidates.

- Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

- Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our drug candidates.

- If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed. We may be subject to claims that our employees, consultants, or advisors have wrongfully used or disclosed alleged trade secrets of their former employers or claims asserting ownership of what we regard as our own intellectual property.

- We may not be successful in obtaining or maintaining necessary rights for our development pipeline through acquisitions and in-licenses.

- Intellectual property rights do not necessarily address all potential threats.

Risks Relating to Our Reliance on Third Parties

- We rely on third parties to conduct our pre-clinical studies and clinical trials and we must work effectively with collaborators to develop our drug candidates. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our drug candidates and our business could be substantially harmed.

- We may rely on third parties to manufacture or import our clinical and commercial drug supplies. Our business could be harmed if those third parties fail to provide us with sufficient quantities of product or fail to do so at acceptable quality levels or prices.

- We have entered into collaborations and may form or seek collaborations or strategic alliances or enter into additional licensing arrangements in the future, and we may not realize the benefits of such alliances or licensing arrangements.

- We may be restricted from transferring our scientific and clinical data abroad.

Risks Relating to Our Operations

- Our future success depends on our ability to retain key executives and to attract, train, retain and motivate qualified and highly skilled personnel.

- Our reputation is key to our business success. Negative publicity may adversely affect our reputation, business and growth prospect.

- We have significantly increased the size and capabilities of our organization, and we may experience difficulties in managing our growth.

- Our involvement in acquisitions or strategic partnerships may increase our capital requirements, dilute our Shareholders, cause us to incur debt or assume contingent liabilities, and subject us to other risks.

- If we fail to comply with applicable anti-bribery laws, our reputation may be harmed and we could be subject to penalties and significant expenses that have a material adverse effect on our business, financial condition and results of operations.

- If we fail to effectively manage our anticipated growth or execute on our growth strategies, our business, financial condition, results of operations and prospects could suffer.

- If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of our business.

- Our facilities may be vulnerable to natural disasters or other unforeseen catastrophic events.

- Our internal computer systems, or those used by our CROs or partners or other contractors or consultants, may fail or suffer security breaches.

- In conducting drug discovery and development, we face potential liabilities, in particular, product liability claims or lawsuits could cause us to incur substantial liabilities.

- In addition to the risks of conducting business globally, we have entered into the licensing of commercialization rights or other forms of collaboration worldwide, which could potentially expose us to additional risks of conducting business in additional international markets.

- We may undertake acquisitions or joint ventures that may have a material adverse effect on our ability to manage our business and may not be successful.

- Increased labor costs could slow our growth and affect our profitability.
- Any future litigation, legal disputes, claims or administrative proceedings against us could be costly and time-consuming to defend.
- A significant portion of our assets is denominated in foreign currencies.
- Our other gains and losses include fair value changes for derivative financial liabilities, which are subject to uncertainties in accounting estimation.

Risks Relating to Our Doing Business in China

- The pharmaceutical industry in China is highly regulated and such regulations are subject to change which may affect approval and commercialization of our drug candidates.
- Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.
- There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.
- We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.
- Our dividend income from our PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate.
- Restrictions on currency exchange may limit our ability to utilize our revenue effectively.
- Our business benefits from certain discretionary financial incentives granted by local governments. Expiration of, or changes to, these incentives or policies would have an adverse effect on our results of operations.
- We are subject to PRC tax laws and regulations.
- It may be difficult to effect service of process upon us or our management that reside in China or to enforce against them or us in China any judgments obtained from foreign courts.
- Any failure by the Shareholders or beneficial owners of our Shares who are PRC residents to comply with certain PRC foreign exchange regulations relating to offshore investment activities by such PRC residents could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC laws.
- We face uncertainty relating to PRC laws and regulations relating to transfers by a nonresident enterprise of assets of a PRC resident enterprise.

- Under China's Enterprise Income Tax Law, we may be classified as a "resident enterprise" of China. This classification could result in unfavorable tax consequences to us and our non-PRC Shareholders.

- Government control of currency conversion of and regulations on loans to, and direct investment in, PRC entities by offshore holding companies may delay or prevent us from making loans or additional contributions to our PRC subsidiaries, which could restrict our ability to utilize the proceeds from the Global Offering effectively and affect our ability to fund and expand our business.

- The political relationships between China and other countries may affect our business operations.

DIRECTORS

The Directors during the Reporting Period are:

Executive Director

Dr. Frank Ningjun Jiang *(Chief Executive Officer and ceased to act as Chairman with effect from May 31, 2022)*

Non-Executive Directors

Dr. Wei Li *(Chairman, appointed as Chairman with effect from May 31, 2022)*
Mr. Kenneth Walton Hitchner III *(Appointed with effect from December 10, 2021)*
Mr. Qun Zhao *(Resigned with effect from December 10, 2021)*
Mr. Yanling Cao
Mr. Xianghong Lin
Mr. Edward Hu *(Appointed with effect from July 9, 2021)*
Dr. Lian Yong Chen *(Resigned with effect from July 9, 2021)*

Independent Non-Executive Directors

Dr. Paul Herbert Chew
Mr. Ting Yuk Anthony Wu
Mr. Hongbin Sun

In accordance with article 16.19 of the Articles of Association, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Director appointed pursuant to Article 16.2 or Article 16.3 shall not be taken into account in determining which Directors are to retire by rotation. Accordingly, Dr. Frank Ningjun Jiang, Mr. Yanling Cao and Mr. Ting Yuk Anthony Wu, will retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

Pursuant to article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Mr. Edward Hu and Mr. Kenneth Walton Hitchner III, who were appointed as non-executive Directors by the Board with effect from July 9, 2021 and December 10, 2021, respectively, and whose appointment became effective on the same date to fill a casual vacancy created by the resignation of Dr. Lian Yong Chen and Mr. Qun Zhao as non-executive Directors, shall hold office until the forthcoming AGM and, being eligible, will offer themselves for re-election.

Dr. Lian Yong Chen and Mr. Qun Zhao resigned as non-executive Directors as they intended to focus and devote more time to their other work commitments respectively. In accordance with the requirements of Rule 13.51(2) of the Listing Rules, Dr. Lian Yong Chen and Mr. Qun Zhao confirmed that they have no disagreement with the Board and there is no other matter relating to their resignations that need to be brought to the attention of the Shareholders.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" of this report.

CHANGES IN INFORMATION OF DIRECTORS

So far as the Directors are aware and save as disclosed in this report, there has been no other change of information of Directors during the Reporting Period pursuant to Rule 13.51B(1) of the Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the INEDs an annual confirmation in writing of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that, during the Reporting Period and up to the date of this report, all of the INEDs are independent.

DIRECTORS' SERVICE CONTRACTS

For more information about the service contract entered into by the Company, please see the Corporate Governance Report in this report for further details.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

Pursuant to Rule 3.25 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the Compensation Committee to formulate remuneration policies. The remuneration is determined and recommended based on the experience, qualification, position and seniority of each Director and senior management. As for the independent non-executive Directors, their remuneration is determined by the Board based on the recommendation from the Compensation Committee. The Directors and the senior management are eligible participants of the applicable share incentive plans.

Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in Note 10 to the Consolidated Financial Statements of this report.

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors' fees and other emoluments are supervised by the Compensation Committee and determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Company as well as the prevailing market conditions. Details of the Directors' remuneration are set out in Note 10 to the Consolidated Financial Statements.

Details of the remuneration by band (including share-based payments) of senior management of the Company (except for details of the remuneration of Directors which are set out in Note 10 to the Consolidated Financial Statements), whose biographies are set out in the section headed "Directors and Senior Management – Senior Management" of this report, for the years ended December 31, 2021 and 2020 are set out below:

HKD	2021 (members of senior management)	2020 (members of senior management)
6,000,000 – 7,000,000	1	–
7,000,000 – 8,000,000	–	1
12,000,000 – 13,000,000	1	–
13,000,000 – 14,000,000	–	1
17,000,000 – 18,000,000	–	1
19,000,000 – 20,000,000	–	1
20,000,000 – 21,000,000	–	1
22,000,000 – 23,000,000	1	–
24,000,000 – 25,000,000	–	1
31,000,000 – 32,000,000	1	–
33,000,000 – 34,000,000	1	–
50,000,000 – 51,000,000	–	1
	5	7

Certain members of senior management were granted share options or restricted share units in respect of their services to the Group. Details of the share-based payment transactions are set out in Note 27 to the Consolidated Financial Statements.

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Articles of Association provide that the Directors or other officers of the Company are entitled to be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the Reporting Period and as at the date of this report of Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor an entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

MANAGEMENT CONTRACTS

No contract of significance concerning the management and administration of the whole or any substantial part of business of the Company or any of its subsidiaries was entered into or subsisted during the Reporting Period.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report and by way of public announcements from time to time, at no time during the Reporting Period was the Company or any of its subsidiaries, a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS OF SUBSIDIARIES

Other than the Directors named in the section headed "Directors and Senior Management" of this report, the persons who had served on the boards of the subsidiaries of the Company during the Reporting Period and up to the date of this report include Mr. Xiaomeng Tong (resigned as a non-executive Director on May 15, 2019), who also serves as a director of CStone (Suzhou) Co., Ltd. (基石藥業(蘇州)有限公司), Mr. Jason Andrew Campling, who serves as a director of CStone Pharmaceuticals Australia Pty Ltd, and Ms. Ping Zhao, who serves as a director of Shenshi Pharmaceuticals (Shanghai) Co., Ltd. (申石生物醫藥(上海)有限公司).

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Reporting Period and up to the date of this report, none of the Directors is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

DEED OF NON-COMPETITION

There is no non-competition undertakings during the Reporting Period between the Company and the largest shareholders of the Company, namely, WuXi Healthcare Ventures II, L.P. and WuXi Healthcare Management, LLC.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Interests and short positions of our Directors in the share capital of the Company

As of December 31, 2021, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the SFO), which were required (a) 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 under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Long Position in the Shares of the Company

Name of Director or chief executive	Nature of interest	Number and class of securities	Approximate percentage of interest in our Company[1]
Dr. Frank Ningjun Jiang, CEO and executive Director	Beneficial Owner	78,061,704 Shares[2]	7.25%
	Trustor of a trust	6,760,000 Shares[3]	0.57%
Mr. Kenneth Walton Hitchner III, non-executive Director	Beneficial Owner	393,981 Shares	0.03%

Notes:

(1) The calculation is based on the total number of 1,187,123,326 Shares in issue as of December 31, 2021.

(2) Includes (1) 19,862,977 Shares beneficially held by Dr. Jiang; (2) Dr. Jiang's entitlement to receive up to 8,553,336 Shares pursuant to the exercise of options granted to him under the Pre-IPO Incentivization Plan, subject to the vesting and other conditions of those options; (3) share options to subscribe for 36,432,379 Shares conditionally granted to Dr. Jiang on August 15, 2019 under the Post-IPO ESOP, subject to the vesting and other conditions of those options; and (4) Dr. Jiang's entitlement to (i) restricted share units equivalent to 5,644,696 Shares granted to him under the Pre-IPO Incentivization Plan, subject to vesting conditions and (ii) restricted share units equivalent to 7,568,316 Shares granted to him under the Post-IPO RSU Scheme, subject to vesting conditions.

(3) These Shares are held by JIANG IRREVOCABLE GIFTING TRUST FBO: YANNI XIAO, Dated November 21, 2018, of which Dr. Frank Ningjun Jiang is the trustor. Effective from August 30, 2019, JIANG IRREVOCABLE GIFTING TRUST FBO: YANNI XIAO, dated November 21, 2018 as beneficial owner appointed Yanni Xiao as its legal nominee to hold 6,760,000 ordinary shares of CStone Pharmaceuticals as legal owner. Under the SFO, Dr. Frank Ningjun Jiang is deemed to be interested in these Shares.

(4) Includes (1) 330,000 Shares beneficially held by Mr. Hitchner; and (2) Mr. Hitchner's entitlement to restricted share units equivalent to 63,981 Shares granted to him under the Post-IPO RSU Scheme, subject to vesting conditions.

Save as disclosed above and to the best knowledge of the Directors, none of the Directors or the chief executive of the Company has or is deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations as of December 31, 2021.

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

Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

As of December 31, 2021, the following are the persons, other than the Directors or the chief executive of the Company, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long Position in the Shares of the Company

Substantial Shareholder	Capacity/Nature of Interest	Total number of Shares/underlying Shares	Approximately percentage of interest in our Company[1]
WuXi Healthcare Ventures II, L.P.[2]	Beneficial interest	293,381,444	24.71%
WuXi Healthcare Management, LLC[2]	Interest in controlled corporation	293,381,444	24.71%
Graceful Beauty Limited[3]	Beneficial interest	142,560,448	12.01%
Boyu Capital Fund II, L.P.[3]	Interest in controlled corporation	142,560,448	12.01%
Boyu Capital General Partner II, L.P.[3]	Interest in controlled corporation	142,560,448	12.01%
Boyu Capital General Partner II, Ltd.[3]	Interest in controlled corporation	142,560,448	12.01%
Boyu Capital Holdings Limited[3]	Interest in controlled corporation	142,560,448	12.01%
Pfizer Corporation Hong Kong Limited[4]	Beneficial interest	115,928,803	9.77%
Pfizer Inc.[4]	Interest in controlled corporation	115,928,803	9.77%
Zhengze Yuanshi[5]	Beneficial interest	98,216,972	8.27%
Suzhou Industrial Park Zhengze Health Venture Capital Management Centre (Limited Partnership) (蘇州工業園區正則健康創業投資管理中心(有限合夥))[5]	Interest in controlled corporation	98,216,972	8.27%
Suzhou Industrial Park Oriza Yuandian Venture Capital Management Co., Ltd. (蘇州工業園區元禾原點創業投資管理有限公司)[5]	Interest in controlled corporation	98,216,972	8.27%
Suzhou Oriza Holdings Co., Ltd. (蘇州元禾控股股份有限公司)[5]	Interest in controlled corporation	98,216,972	8.27%
Suzhou Industrial Park Zhengze Jiming Equity Investment Management Co., Ltd. (蘇州工業園區正則既明股權投資管理有限公司)[5]	Interest in controlled corporation	98,216,972	8.27%
Suzhou Industrial Park Economic Development Co., Ltd. (蘇州工業園區經濟發展有限公司)[5]	Interest in controlled corporation	98,216,972	8.27%
Suzhou Industrial Park Administrative Committee (蘇州工業園區管委會)[5]	Interest in controlled corporation	98,216,972	8.27%
Fei Jianjiang (費建江)[5]	Interest in controlled corporation	98,216,972	8.27%
GIC Private Limited[6]	Interest in controlled corporation	48,392,472	4.08%
	Investment manager	25,025,000	2.11%
GIC Special Investments Private Limited[6]	Interest in controlled corporation	48,392,472	4.08%
GIC (Ventures) Pte. Ltd.[6]	Interest in controlled corporation	48,392,472	4.08%
Tetrad Ventures Pte Ltd.[6]	Beneficial interest	48,392,472	4.08%

Notes:

(1) The calculation is based on the total number of 1,187,123,326 Shares in issue as of December 31, 2021.

(2) As of December 31, 2021, WuXi Healthcare Ventures II, L.P. directly held 293,381,444 Shares. To the best knowledge of us, WuXi Healthcare Ventures II, L.P. is a limited partnership established under the laws of Cayman Islands managed by its sole general partner, WuXi Healthcare Management, LLC, a Cayman Islands exempted company in which each of its five members holds an equal share of equity interest. For the purpose of the SFO, WuXi Healthcare Management, LLC is deemed to have an interest in the Shares held by WuXi Healthcare Ventures II, L.P.

(3) As of December 31, 2021, Graceful Beauty Limited, an exempted company with limited liability incorporated under the laws of Cayman Islands, directly held 142,560,448 Shares. For the purpose of the SFO, each of Boyu Capital Fund II, L.P. (as the sole shareholder of Graceful Beauty Limited), Boyu Capital General Partner II L.P. (as the general partner of Boyu Capital Fund II, L.P.), Boyu Capital General Partner II Ltd. (as the general partner of Boyu Capital General Partner II L.P.), and Boyu Capital Holdings Ltd. (as the sole shareholder of Boyu Capital General Partner II Ltd.) is deemed to have an interest in the Shares held by Graceful Beauty Limited.

(4) As of December 31, 2021, Pfizer Corporation Hong Kong Limited, a company incorporated in Hong Kong with limited liability, directly held 115,928,803 Shares. For the purpose of the SFO, Pfizer Inc., a Delaware-incorporated company listed on the New York Stock Exchange and indirectly holding 100% of the shares in Pfizer Corporation Hong Kong Limited is deemed to have an interest in the Shares held by Pfizer Corporation Hong Kong Limited.

(5) As of December 31, 2021, Zhengze Yuanshi directly held 98,216,972 Shares. Zhengze Yuanshi is managed by its sole general partner, Suzhou Industrial Park Zhengze Health Venture Capital Management Centre (Limited Partnership) (蘇州工業園區正則健康創業投資管理中心(有限合夥)), a limited partnership established in China, in which Suzhou Industrial Park Oriza Yuandian Venture Capital Management Co., Ltd. (蘇州工業園區元禾原點創業投資管理有限公司) has 45% equity interest. Suzhou Oriza Holdings Co., Ltd. (蘇州元禾控股股份有限公司) and Suzhou Industrial Park Zhengze Jiming Equity Investment Management Co., Ltd. (蘇州工業園區正則既明股權投資管理有限公司) hold 49% and 51% of the issued share capital of Suzhou Industrial Park Oriza Yuandian Venture Capital Management Co., Ltd., respectively. Suzhou Oriza Holdings Co., Ltd. is held 60% by Suzhou Industrial Park Economic Development Co., Ltd. (蘇州工業園區經濟發展有限公司), a state-owned enterprise directly under the Suzhou Industrial Park Administrative Committee (蘇州工業園區管委會), a PRC government related institution primarily responsible for implementing government investment functions. Suzhou Industrial Park Zhengze Jiming Equity Investment Management Co., Ltd. is 45.18% owned by Fei Jianjiang (費建江). For the purpose of the SFO, each of Suzhou Industrial Park Zhengze Health Venture Capital Management Centre (Limited Partnership), Suzhou Industrial Park Oriza Yuandian Venture Capital Management Co., Ltd., Suzhou Oriza Holdings Co., Ltd., Suzhou Industrial Park Zhengze Jiming Equity Investment Management Co., Ltd., Suzhou Industrial Park Economic Development Co., Ltd., the Suzhou Industrial Park Administrative Committee and Fei Jianjiang is deemed to have an interest in the Shares held by Zhengze Yuanshi.

(6) As of December 31, 2021, Tetrad Ventures Pte Ltd directly held 48,392,472 Shares. Tetrad Ventures Pte Ltd is wholly owned by GIC (Ventures) Pte. Ltd. and GIC (Ventures) Pte. Ltd. is wholly owned by GIC Special Investments Pte Ltd, which in turn is wholly owned by GIC Private Limited. For the purpose of the SFO, each of GIC Private Limited, GIC Special Investments Pte Ltd and GIC (Ventures) Pte. Ltd. is deemed to have an interest in the Shares held by Tetrad Ventures Pte Ltd.

Save as disclosed above and to the best knowledge of the Directors, as of December 31, 2021, the Company is not aware of any other person (other than the Directors or the chief executive of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

LARGEST SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

At no time during the Reporting Period had the Company or any of its subsidiaries, and its largest shareholders of the Company or any of their subsidiaries (as the case may be) entered into any contract of significance or any contract of significance for the provision of services by any such largest shareholders or their subsidiaries (as the case may be) to the Company or any of its subsidiaries.

SHARE INCENTIVIZATION SCHEMES

We have adopted three share incentivization schemes, collectively referred to as the Share Incentivization Schemes.

Pre-IPO Incentivization Plan

We have adopted the Pre-IPO Incentivization Plan by the resolutions in writing of the Board passed on July 7, 2017 and as amended and restated on August 14, 2018 and as further amended and restated on January 26, 2019 and as further amended and restated on January 7, 2020. No further options will be granted under the Pre-IPO Incentivization Plan.

As of December 31, 2021, pursuant to the Pre-IPO Incentivization Plan, we had granted to Directors, executives and employees of the Group outstanding options to subscribe for 16,189,597 Shares, representing approximately 1.36% of the total issued share capital of our Company as of December 31, 2021, and 1.36% of the total issued share capital of our Company as of the Latest Practicable Date.

Movement of the options, which were granted under the Pre-IPO Incentivization Plan, during the Reporting Period is as follows:

Category	Grant date [1], [2] and [5]	Outstanding as of 01/01/2021	Granted	Number of options[1], [3] and [4] during the Reporting Period Exercised	Canceled	Lapsed	Outstanding as of 31/12/2021	Exercise price HK$
1. Director								
Frank Ningjun Jiang (CEO and executive Director)	July 1, 2016	8,633,336	0	80,000[5]	0	0	8,553,336	0.20-0.40
2. Continuous Contract Employees	July 11, 2016 to February 25, 2019	15,958,989	0	7,232,583[6]	0	1,090,145	7,636,261	0.20-4.65
Total:		24,592,325	0	7,312,583	0	1,090,145	16,189,597	

Notes:

(1) 25% of the Shares vest on the first anniversary of the vesting commencement date set out on the relevant offer letter, and the remaining shall vest monthly in equal installments over the following 36 months.

(2) The relevant offer letter sets out the option exercise period of 10 years for each corresponding grantee.

(3) During the Reporting Period, no option was granted for adjustment under the Pre-IPO Incentivization Plan.

(4) There are no participants with options granted in excess of the individual limit and no grants to suppliers of goods and services.

(5) For the options exercised by Directors during the Reporting Period, the weighted average closing price of the securities immediately before the dates on which the options exercised was HK$16.95.

(6) For the options exercised by continuous contract employees during the Reporting Period, the weighted average closing price of the securities immediately before the dates on which the options exercised was HK$12.69.

(7) The exercise price is adjusted by the effect of capitalization issue.

As of December 31, 2021, pursuant to the Pre-IPO Incentivization Plan, we had granted to Directors, executives and employees of the Group outstanding RSUs representing 8,021,554 Shares, accounting for approximately 0.68% of the total issued share capital of our Company as of December 31, 2021, and 0.68% of the total issued share capital of our Company as of the Latest Practicable Date.

Details of RSUs granted under the Pre-IPO Incentivization Plan during the Reporting Period are as follows:

Category	Grant date[1]	Outstanding as of 01/01/2021	Number of Shares underlying RSUs [1] and [2] during the Reporting Period				Outstanding as of 31/12/2021
			Granted	Vested	Canceled	Lapsed	
1. Director							
Frank Ningjun Jiang (CEO and executive Director	July 1, 2018 to March 28, 2019	10,855,168	0	5,210,472	0	0	5,644,696
2. Continuous Contract Employees	July 1, 2018 to March 28, 2019	15,943,053	0	6,226,485	0	7,339,710	2,376,858
Total:		26,798,221	0	11,436,957	0	7,339,710	8,021,554

Notes:

(1) 25% of the Shares vest on the first anniversary of the vesting commencement date set out on the relevant offer letter, and the remaining shall vest monthly in equal installments over the following 36 months.

(2) There are no participants with RSUs granted in excess of the individual limit and no grants to suppliers of goods and services.

Post-IPO ESOP

We have adopted the Post-IPO ESOP by resolutions passed by our Company on January 30, 2019, with effect upon completion of the Listing.

As of December 31, 2021, pursuant to the Post-IPO ESOP, we had granted to employees of the Group outstanding options to subscribe for 69,553,717 Shares, representing approximately 5.86% of the total issued share capital of our Company as of December 31, 2021 and 5.85% of the total issued share capital of our Company as of the Latest Practicable Date. Among the options granted above, none of the options were granted to any of the directors, chief executive and substantial shareholder of our Company or an associate of any of them.

Movement of the options, which were granted under the Post-IPO ESOP, during the Reporting Period is as follows:

			Number of options [1] and [3] during the Reporting Period						
Category	Grant date [1] and [2]	Outstanding as of 01/01/2021	Granted	Exercised	Canceled	Lapsed	Outstanding as of 31/12/2021	Exercise price HK$	Closing price immediately before the date of grant HK$
1. Director									
Frank Ningjun Jiang (CEO and executive Director	June 23, 2020	36,432,379	0	0	0	0	36,432,379	NA	11.400
2. Continuous Contract Employees	April 1, 2019	857,684	0	19,875	0	149,806	688,003	15.860	15.880[4]
	June 10, 2019	1,861,332	0	12,841	0	11,664	1,836,827	12.600	12.120[4]
	October 11, 2019	998,500	0	233,506	0	212,083	552,911	12.200	12.040[4]
	December 9,2019	6,894,396	0	97,831	0	330,981	6,465,584	10.790	10.500[4]
	April 1, 2020	8,078,500	0	1,065,264	0	3,520,709	3,492,527	8.850	8.700[4]
	July 13, 2020	2,129,000	0	35,000	0	991,500	1,102,500	11.048	11.100[4]
	November 30, 2020	2,443,000	0	11,250	0	732,500	1,699,250	9.960	9.990[4]
	April 1, 2021	NA	11,653,800	0	0	2,460,400	9,193,400	9.850	9.250
	July 2, 2021	NA	4,055,000	0	0	40,000	4,015,000	17.308	17.1
	December 10, 2021	NA	4,075,336	0	0	0	4,075,336	9.588	9.75
Total:		59,694,791	19,784,136	1,475,567	0	8,449,643	69,553,717		

Notes:

(1) The vesting schedule of the options is as follows: (i) in relation to 12,255,136 options granted during the Reporting Period: 25% of the grant shall vest on the first anniversary of the grant date set out in the relevant offer letter, and the remaining 75% of the grant shall vest in 36 equal monthly installments thereafter; (ii) in relation to 7,529,000 options granted during the Reporting Period: 25% of the grant shall vest on each of the first, second, third and fourth anniversaries of the grant date set out in the relevant offer letter. All the options granted shall vest within four years since the date of grant.

(2) The relevant offer letter sets out the option exercise period of 10 years for each corresponding grantee.

(3) There are no participants with options granted in excess of the individual limit and no grants to suppliers of goods and services.

(4) For the options exercised by continuous contract employees during the Reporting Period, the weighted average closing price of the securities immediately before the dates on which the options exercised was HK$13.75.

Post-IPO RSU Scheme

We have adopted the Post-IPO RSU Scheme by resolutions passed by our Company on March 22, 2019 and restated and amended by our Company on December 10, 2019 and January 7, 2020, as amended from time to time.

As of December 31, 2021, pursuant to the Post-IPO RSU Scheme, we had granted to employees of the Group outstanding RSUs representing 18,734,247 Shares, accounting for approximately 1.58% of the total issued share capital of our Company as of December 31, 2021, and 1.58% of the total issued share capital of our Company as of the Latest Practicable Date.

Details of RSUs granted under the Post-IPO RSU Scheme, during the Reporting Period are as follows:

			Number of Shares underlying RSUs [1] and [2] during the Reporting Period			
Category	Grant date [1]	Outstanding as of 01/01/2021	Granted	Vested	Canceled or Lapsed	Outstanding as of 31/12/2021
1. Director						
Frank Ningjun Jiang (CEO and executive Director)	August 15, 2019 to November 30, 2020	8,912,360	0	1,344,044	0	7,568,316
Kenneth Walton Hitchner III	December 10, 2021	0	63,981	0	0	63,981
2. Continuous Contract Employees	March 22, 2019 to December 10, 2021	13,168,354	6,851,084	3,613,080	5,304,408	11,101,950
Total:		22,080,714	6,915,065	4,957,124	5,304,408	18,734,247

Notes:

(1) The vesting schedule of the RSUs is as follows: (i) in relation to 1,820,000 RSUs granted during the Reporting Period: 25% of the grant shall vest on the first anniversary of the grant date set out in the relevant offer letter, and the remaining 75% of the grant shall vest in 36 equal monthly installments thereafter; (ii) in relation to 5,095,065 RSUs granted during the Reporting Period: 25% of the grant shall vest on each of the first, second, third and fourth anniversaries of the grant date set out in the relevant offer letter.

(2) There are no participants with RSUs granted in excess of the individual limit and no grants to suppliers of goods and services.

For further details of the Share Incentivization Schemes, including the fair value of the options granted under the Share Incentivization Schemes, please refer to note 27 to the Consolidated Financial Statements.

SUMMARY OF THE SHARE INCENTIVIZATION SCHEMES

The major terms and details of the Share Incentivization Schemes are set out below:

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
1. Purpose	To attract, motivate and/or to reward eligible employees, officers, directors, contractor, advisors and consultants of our Group	To attract and retain employees, to reward eligible employees for their past contribution to the Company, to provide incentives to the employees to further contribute to the Group and to align their interests with the best interests of the Company and the Shareholders as a whole	To: • recognize the contributions by certain selected participants with an opportunity to acquire a proprietary interest in the Company; • encourage and retain such individuals for the continual operation and development of the Group; • provide additional incentives for them to achieve performance goals; • attract suitable personnel for further development of the Group; and • motivate the selected participants to maximize the value of the Company for the benefits of both the selected participants and the Company, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the selected participants directly to the Shareholders of the Company through ownership of Shares

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
2. Participants	Eligible employees include any employee, officer, director, contractor, advisor or consultant of the Group who is notified by the Board that he or she is eligible by reason of their contribution to the Group	Eligible employees include any employee, officer, director, contractor, advisor or consultant of the Group who is notified by the Board that he or she is an employee eligible by reason of his or her contribution to the Group, to the extent that an offer of an award to or a receipt of such award by him or her is permitted under the applicable laws, rules and regulations or accounting or tax rules and regulations	Eligible persons include any employee of any member of the Group and any consultant, adviser or agent of any member of the Group (including the connected persons (as defined in the Listing Rules) of the Company), who have contributed or will contribute to the growth and development of the Group
3. Maximum number of Shares that can be awarded	The maximum number of Shares in respect of which awards may be granted under the plan shall not, subject to any reorganisation of capital structure and other corporate events, exceed 130,831,252 Shares in the aggregate (taken into account of the capitalization issue on the Listing Date)	The maximum number of Shares in respect of which awards may be granted or delivered in satisfaction of awards under the plan shall not, subject to any reorganisation of capital structure and other corporate events, exceed 98,405,153 (taken into account of the capitalization issue on the Listing Date), being 10% of the Shares in issue as of the adoption date. The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the plan and any other schemes must not exceed 30% of the relevant class of Shares in issue from time to time	The Board may not make any further award which will result in the aggregate number of the Shares awarded by the Board under the scheme exceeding, initially, 7,650,000 Shares (being approximately 0.78% of the issued share capital of the Company as at the adoption date), which was subsequently increased to 38,010,316 Shares (being approximately 3.20% of the issued share capital of the Company as at December 31, 2021) pursuant to a board meeting dated July 15, 2019

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
4. Maximum entitlement of each participant	No employee shall be granted an award which, if exercised or settled in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued under all the awards previously granted to him which have been exercised, and, issuable or settled under all the awards previously granted to him which for the time being subsisting and unexercised, would exceed 10% of the aggregate number of Shares for the time being issued and issuable under the plan	Except with the approval of the Shareholders in general meeting, no option may be granted to any one person which, if exercised or settled in full, such that the total number of Shares issued and to be issued upon exercise of options and any other option over the Shares (including exercised, cancelled and outstanding options) granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the Shares in issue from time to time	–
5. Option period	The period during which the option can be exercised as set forth in the relevant offer letters in accordance with the plan	The period during which the option can be exercised as set forth in the relevant offer letters in accordance with the plan, which, in any event, must end on or before the tenth anniversary of the date of the grant of such option There is no minimum period for which an option must be held before it can be exercised	The vesting of the awarded Shares is subject to the selected participant remaining at all times after the grant date and on the date of vesting, an eligible person, subject to the rules of the scheme Subject to the satisfaction of all vesting conditions as prescribed in scheme, the selected participants will be entitled to receive the awarded Shares

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
6. Acceptance of offer	Awards granted must be accepted within the period as stated in the offer of the grant, upon payment of exercise price as set out in the relevant offer letter per grant, if any		
7. Exercise price	The subscription price shall be approved by the Board and shall be set out in the offer letter The exercise prices of the options granted between the adoption date and the listing Date include US$0.1, US $0.2, US $0.57 and US$2.37 (without taking into account the effect of the capitalisation issue)	The subscription price shall be approved by the Board and shall be set out in the offer letter. The subscription price per Share of each award requiring exercise must be no less than 100% of the Fair Market Value of the Shares subject to the award, determined as of the date of grant, or such higher amount as the Board may determine in connection with the grant in accordance with the applicable laws, stock market or exchange rules (including the Listing Rules) and regulations and the terms of the plan. "Fair Market Value" means the higher of (a) the closing price of a Share on the date of grant, which must be a business day, on the principal stock market or exchange on which the Shares are quoted or traded, and (b) the average closing price of a Share for the five trading days immediately preceding the date of grant, on the principal stock market or exchange on which the Shares are quoted or traded	–

Details	Pre-IPO Incentivization Plan	Post-IPO ESOP	Post-IPO RSU Scheme
8. Remaining life of the scheme	The plan shall be valid and effective for the period of ten years commencing on the adoption date until July 7, 2027 after which period no further awards will be granted, but the provisions of the plan shall in all other respects remain in full force and effect and the grantees may exercise the options in accordance with the terms upon which the options are granted	The plan shall be valid and effective for the period of ten years commencing on the adoption date until February 26, 2029 after which period no further awards will be granted, but the provisions of the plan shall in all other respects remain in full force and effect and the grantees may exercise the options in accordance with the terms upon which the options are granted	The scheme remains valid and effective from the adoption date until March 22, 2029, being the tenth anniversary of the adoption date, after which period no further awards will be granted, but the provisions of the scheme will in all other respects remain in full force and effect and awards that are granted from the adoption date until the tenth anniversary of the adoption date may continue to be exercisable in accordance with their terms of issue

CONTINUING CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

None of the related parties transactions as disclosed in Note 30 to the Consolidated Financial Statements constitute connected transaction or continuing connected transaction as defined under Chapter 14A of the Listing Rules. During the Reporting Period, there were no connected transactions nor continuing connected transactions of the Group which has to be disclosed in accordance with Chapter 14A of the Listing Rules.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by geographical areas of the operations for the Reporting Period is set out in Note 6 to the Consolidated Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the 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.

SHARES ISSUED IN THE REPORTING PERIOD

Details of the Shares issued by the Company during the Reporting Period are set out in Note 26 and Note 27 to the Consolidated Financial Statements.

DISTRIBUTABLE RESERVES

As of December 31, 2021, the Company did not have any distributable reserves.

USE OF NET PROCEEDS

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date. The Group received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the IPO and the exercise of over-allotment option of approximately RMB2,090.16 million. There was no change in the intended use of net proceeds as previously disclosed in the Prospectus as follows and the Company will gradually utilize the residual amount of the net proceeds in accordance with such intended purposes depending on actual business needs.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2021:

	% of use of proceeds (Approximately)	Net proceeds from the HK IPO *(RMB million)*	Actual usage up to December 31, 2021 *(RMB million)*	Unutilized net proceeds as of December 31, 2021 *(RMB million)*
Fund ongoing and planned clinical trials, preparation for registration filings and commercial launches of CS1001	30.0	627.04	627.04	–
Fund ongoing and planned clinical trials, preparation for registration filings and commercial launches eight of our other clinical and IND stage candidates in our pipeline	40.0	836.06	836.06	–
Fund the R&D of five of the remaining drug candidates in our pipeline and the R&D and in-licensing of new drug candidates	20.0	418.04	418.04	–
For working capital and general corporate purposes	10.0	209.02	209.02	–
Total	**100.0**	**2,090.16**	**2,090.16**	**–**

Notes:

(1) Net IPO proceeds were received in Hong Kong dollars and translated to Renminbi for application planning.

On September 30, 2020 (before trading hours), in order to advance the Company's strategic, commercial and financial objectives as it transitions into a fully integrated biopharma company, the Company entered into the Share Subscription Agreement with Pfizer Corporation Hong Kong Limited, pursuant to which Pfizer Corporation Hong Kong Limited has conditionally agreed to subscribe for an aggregate of 115,928,803 Subscription Shares at the Subscription Price of US$1.725 per Share (equivalent to approximately HK$13.37 per Share). The gross proceeds from the allotment and issue of the Subscription Shares were approximately US$200.0 million (equivalent to approximately HK$1.55 billion), which will be used for the funding of the development activities under the collaboration agreement in accordance with the terms and conditions set out therein, unless otherwise agreed between the parties to the collaboration agreement. All the conditions of the Subscription have been fulfilled and the closing of the Subscription took place on October 9, 2020. The use of these proceeds is in line with the planned use and there is no significant change or delay.

The table below sets out the planned applications of the proceeds and actual usage up to December 31, 2021:

Purpose of use	% of use of proceeds (Approximately)	Proceeds from the subscription *(RMB million)*	Actual usage up to December 31, 2021 *(RMB million)*	Unutilized net proceeds as of December 31, 2021 *(RMB million)*	Expected timeframe for utilizing the remaining unutilized net proceeds
Fund the development activities under the collaboration agreement	100.0%	1,355.9	405.7	950.2	December 31, 2023

Note:

(1) Net proceeds of the Subscription were received in US dollars and translated to Renminbi for application planning.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained the prescribed public float under the Listing Rules during the Reporting Period and up to the date of this annual report.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

PRE-EMPTIVE RIGHTS

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

PROFESSIONAL TAX ADVICE RECOMMENDED

If any of the Shareholders is unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, he or she is advised to consult an expert. The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares.

BANK LOANS AND OTHER BORROWINGS

On January 7, 2020, the Group obtained two new bank loan facilities amounting to RMB175 million and RMB25 million, respectively, for the purpose of the construction of the facilities. During the Reporting Period, the Group has drawn down RMB96,215,000 and repaid RMB10,577,000 of principal and interest in accordance with the payment schedules. For details on the maturity profile of our borrowings, please see Note 23 to the Consolidated Financial Statements.

Save as disclosed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, unutilized banking facilities, bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees.

KEY PERFORMANCE INDICATORS

Revenue decreased by RMB795.1 million from RMB1,038.8 million for the year ended December 31, 2020 to RMB243.7 million for the year ended December 31, 2021.

Other gains and losses decreased by RMB45.2 million from losses of RMB179.4 million for the year ended December 31, 2020 to losses of RMB134.2 million for the year ended December 31, 2021.

Research and development expenses decreased by RMB99.8 million from RMB1,404.7 million for the year ended December 31, 2020 to RMB1,304.9 million for the year ended December 31, 2021.

Administrative expenses decreased by RMB44.9 million from RMB342.5 million for the year ended December 31, 2020 to RMB297.6 million for the year ended December 31, 2021.

Selling and marketing expenses increased by RMB221.6 million from RMB142.2 million for the year ended December 31, 2020 to RMB363.8 million for the year ended December 31, 2021.

As a result of the above factors, the loss for the year increased by RMB699.1 million from RMB1,221.0 million for the year ended December 31, 2020 to RMB1,920.1 million for the year ended December 31, 2021.

CHARITABLE CONTRIBUTIONS

During the Reporting Period, the Group did not make any charitable contributions.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2021, the Group derived substantially its revenues from license fee income. For the year ended December 31, 2021, revenue from the five largest customers and the largest customer accounted for approximately 98.4% and 65.2%, respectively, of the Group's total revenue. For further details, please see Note 5 to the Consolidated Financial Statements of this report.

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

During the year ended December 31, 2021, purchases from the Group's five largest supplier accounted for less than 30% of the Groups total purchases.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have a significant impact on the operation of the Group, including the requirements under the Companies Ordinance, the Listing Rules, the SFO and the CG Code for, among other things, the disclosure of information and corporate governance. For details of the applicable laws and regulations, please refer to the section headed "Regulatory Environment" in the Prospectus for details. The Group would seek professional legal advice from its legal advisers to ensure that transactions and business to be performed by the Group are in compliance with the applicable laws and regulations. During the Reporting Period, the Group was not aware of any material non-compliance with any relevant laws and regulations that had a significant impact on it.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the Reporting Period. The Directors are also not aware of any material litigation or claims that were pending or threatened against the Group during the Reporting Period.

RELATIONSHIPS WITH THE GROUP'S EMPLOYEES

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

RETIREMENT BENEFIT PLANS

The employees of the Company's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are approximately RMB49,745,000 (2020: RMB16,546,000) for the year ended December 31, 2021.

In Australia, the Group pays superannuation contributions to an Australian superannuation fund under relevant rules and regulations in Australia. The Group's Australian subsidiaries are required to contribute a minimum of 9.5% to 10.0% of the employee's ordinary time earnings for all qualifying employees in Australia to any complying super funds of employees' own choice.

During the Reporting Period, there were no forfeited contributions under the defined contributions plans of the Group, and there were no forfeited contributions had been used by the Group to reduce the existing level of contributions.

RELATIONSHIPS WITH THE GROUP'S SUPPLIERS AND OTHER STAKEHOLDERS

The Group values long-standing relationships with its suppliers, customers, medical experts, and other business associates are key to the Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationships with them. The Group aims at delivering high quality products to its potential customers and developing mutual trust and enhancing communication and commitment between the Group and its suppliers to maintain sustainable growth. For details of an account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company is set out in the "Environmental, Social and Governance Report" of the Company which has been published on May 31, 2022.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Particulars of the Company's significant events affecting the Company or any of its subsidiaries after the year ended December 31, 2021 are set out in the section headed "Management Discussion and Analysis – Events after the Reporting Period" of this report.

RESUMPTION OF TRADING

References are made to the announcements of the Company dated March 18, 2022, March 23, 2022 and May 31, 2022, respectively. During the course of the audit process for the year ended December 31, 2021, the auditors of the Company noted that in July 2021, funds of the Company amounting to approximately HKD227.7 million (equivalent to RMB189.2 million), after deduction of subscription fee and other expenses, were invested in fund-linked notes issued by CMB International Global Products Limited (the "**Investment**") via CStone HK.

At the auditor's request, the Audit Committee engaged a "big four" accounting firm other than the auditors ("**Independent Advisor**") as the forensic accounting specialist to conduct an independent investigation into the Investment (the "**Investigation**"). As of the date of this report, the Investigation has been completed and the Independent Advisor has issued the report of the Investigation dated May 22, 2022 and supplemental report of the Investigation dated May 28, 2022. For further details on the Investment and the key findings of the Investigation, please refer to the announcement of the Company dated May 31, 2022.

At the request of the Company, trading in the shares of the Company on The Stock Exchange of Hong Kong Limited was suspended from 9:00 a.m. on Friday, April 1, 2022, pending the publication of the 2021 annual results announcement by the Company. The Company has published its 2021 annual results announcement on May 31, 2022 and trading in the shares of the Company has resumed on June 1, 2022.

CORPORATE GOVERNANCE

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

EQUITY-LINK AGREEMENT

Save as disclosed in the section headed "Share Incentivization Schemes" in this report, there was no equity-link agreement entered into by the Company during the Reporting Period.

REVIEW BY AUDIT COMMITTEE

The Audit Committee currently comprises three INEDs, namely, Mr. Hongbin Sun, Dr. Paul Herbert Chew and Mr. Ting Yuk Anthony Wu. The Audit Committee has reviewed with the management of the Company the audited Consolidated Financial Statements for the Reporting Period.

INDEPENDENT AUDITOR

The Consolidated Financial Statements for the Reporting Period have been audited by Deloitte Touche Tohmatsu. Having been approved by the Board upon the Audit Committee's recommendation, a resolution for the re-appointment of Deloitte Touche Tohmatsu as the Independent Auditor for the ensuing year will be put forward at the forthcoming AGM for Shareholder's approval.

In the preceding three years, the auditors of the Company have not changed.

On Behalf of the Board

Dr. Wei Li
Chairman and Non-executive Director

Suzhou, PRC, May 31, 2022

Corporate Governance Report

The Board hereby presents to the Shareholders the corporate governance report of the Group for the year ended December 31, 2021 (the "**Corporate Governance Report**").

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Company has applied the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules as the basis of the Company's corporate governance practices.

The Company has adopted and applied the principles as set out in the CG Code. The Board is of the view that during the Reporting Period, the Company has complied with all the applicable principles and code provisions as set out in the CG Code, except for code provision C.2.1 described in the paragraph headed "Board of Directors – Chairman and Chief Executive Officer" in this Corporate Governance Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

We have also adopted our own code of conduct regarding Directors' securities transactions, namely the Policy on Management of Securities Transactions by Directors (the "**Securities Transactions Code**"), which applies to all Directors on terms not less exacting than the required standard indicated by the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made of all the Directors and they have confirmed that they have complied with the Securities Transactions Code throughout the Reporting Period.

The Group's employees, who are likely to be in possession of unpublished inside information of the Group, are subject to the Model Code. No incident of non-compliance of the Model Code by the employees of the Group was noted by the Company as at the date of this report.

BOARD OF DIRECTORS

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established five Board committees including the Audit Committee, the Compensation Committee, the Nomination Committee, the Strategy Committee and the Investment Committee (collectively, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference. For details of the composition of the Board, please see the paragraphs headed "Composition" in this Corporate Governance Report and "Directors" in the Report of the Directors.

All Directors have carried out their duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

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 the 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 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.

Continuous Professional Development of Directors

The Company believes education and training are important for maintaining an effective Board. Every Director should participate in continuous professional development 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.

Every newly appointed Director during the Reporting Period have received formal, comprehensive and tailored induction on the first occasion of his 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.

The Company arranges continuous professional development for Directors such as updates by its compliance counsel to ensure Directors keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant. During the year ended December 31, 2021, all Directors were regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. Directors also regularly meet with the senior management team to understand the Group's businesses, governance policies and regulatory environment. All Directors are also encouraged to attend relevant training courses.

Chairman and Chief Executive Officer

In accordance with Code Provision C.2.1 of the CG Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The roles of Chairman and Chief Executive Officer of the Company had been performed by Dr. Frank Ningjun Jiang until he ceased to act as the Chairman on May 31, 2022. While this constituted a deviation from Code Provision C.2.1 of Part 2 of the CG Code, our Board believed that this structure did not impair the balance of power and authority between our Board and the management of our Company, given that the balance of power and authority was ensured by the operations of our Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of our Company. Moreover, the overall strategic and other key business, financial and operational policies of our Group are made collectively after thorough discussion at both our Board and senior management levels.

Subsequent to and as from the cessation of Dr. Frank Ningjun Jiang's acting as the Chairman and Dr. Wei Li's taking up the role of the Chairman on May 31, 2022, the Company has fully complied with the requirements under code provision C.2.1 of the CG Code. For further details, please refer to the announcement of the Company dated May 31, 2022.

During the Reporting Period, the Company held board meetings that included the participation of the executive Director, yet the non-executive Directors could freely provide their independent opinion to the Board. The Company has also arranged for the then Chairman Dr. Frank Ningjun Jiang, (who was the sole executive Director) to have one meeting with the three INEDs in the absence of the non-executive Directors and senior management in compliance with the requirement of code provision C.2.7 during the Reporting Period.

Composition

As at the date of this report, the Board comprises nine Directors, with one executive Director, five non-executive Directors and three INEDs. With effect from December 10, 2021, Mr. Qun Zhao resigned as a non-executive Director, and Mr. Kenneth Walton Hitchner III was appointed as a non-executive Director. With effect from July 9, 2021, Dr. Lian Yong Chen resigned as a non-executive Director, and Mr. Edward Hu was appointed as a non-executive Director. Apart from the foregoing, there is no change to the composition of the Board during the Reporting Period. A list of Directors and their respective biographies are set out in the section headed "Directors and Senior Management" of this report. As at the date of this report, to the best knowledge of the Company, there has been no financial, business, family, or other material/relevant relationships among members of the Board.

The Board's composition is in compliance with the requirement under Rule 3.10A of the Listing Rules that the number of INEDs must represent at least one-third of the Board. The Board believes that the balance between the executive Director and the non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the Shareholders and the Group.

The Board values the importance of professional judgment and advice provided by non-executive Directors to safeguard the interests of the Shareholders. The non-executive Directors contribute diversified qualifications and experience to the Group by expressing their views in professional, constructive and informed manner, and actively participate in Board and committee meetings and to bring professional judgment and advice on issues relating to the Group's strategies, policies, performance, accountability, resources, key appointments, standards of conduct, conflicts of interests and management process, with the Shareholders' interests being the utmost important factor. The non-executive Directors also exercise their professional judgment and utilise their expertise to scrutinise the Company's performance in achieving agreed corporate goals, and monitor performance reporting.

Further, in compliance with Rule 3.10 of the Listing Rules, two of the Company's INEDs (namely Mr. Ting Yuk Anthony Wu and Mr. Hongbin Sun) have the appropriate professional qualifications of accounting or related financial management expertise, and provide valuable advice from time to time to the Board. The Company has also received from each INED an annual confirmation of his independence and the Nomination Committee has conducted an annual review and considers that all INEDs are independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules in the context of the length of service of each INED.

As part of the Company's corporate governance practice to provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, the INEDs are clearly identified in all corporate communications containing the names of the Directors. In addition, an up-to-date list of Directors identifying the INEDs and the roles and functions of the Directors is maintained on the Company's website and the Stock Exchange's website.

Appointments and Re-election of Directors

The Company entered into a service contract with Dr. Frank Ningjun Jiang on February 19, 2019. The service contract may be terminated by not less than three months' notice served by either party on the other.

The Company entered into a letter of appointment with Mr. Edward Hu and Mr. Kenneth Walton Hitchner III on July 9, 2021 and December 10, 2021, respectively. Both Mr. Edward Hu and Mr. Kenneth Walton Hitchner III will be subject to re-election at the annual general meeting of the Company to be held on June 30, 2022 and their appointment shall continue for a period of three years and until the conclusion of the third AGM of the Company after his re-election or such earlier date pursuant to the Articles of Association.

Dr. Wei Li was re-designated as our NED on October 29, 2018. His term was not specified under contract and his term of appointment of three years following re-election is in accordance with the Articles of the Company. Each of Mr. Yanling Cao and Mr. Xianghong Lin has entered into a letter of appointment with the Company on May 15, 2019 and November 30, 2020, respectively. The term of their appointment shall be three years with effect from the appointment date and upon being re-elected. Mr. Yanling Cao will be subject to re-election at the annual general meeting of the Company to be held on June 30, 2022. Dr. Wei Li and Mr. Xianghong Lin have been re-elected as our NED at the annual general meeting held on June 23, 2021.

Each of the INEDs has entered into an appointment letter with the Company. The initial term of their appointment shall be between two to three years from February 14, 2019 or until the third AGM of the Company after the Listing Date, whichever is earlier (subject to retirement as and when required under the Articles of Association) or until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing. Dr. Paul Herbert Chew and Mr. Hongbin Sun, and Mr. Ting Yuk Anthony Wu have been re-elected as our INED on the annual general meeting held on June 23, 2021 and June 23, 2020, respectively.

Apart from the above, during the Reporting Period, the Company has not entered into any other service contract with any of its other Directors. None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation), and no remunerations have been paid to Directors by the Company in the capacity of them as Directors in the Company.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself for re-election by the Shareholders at the first AGM of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the next following AGM of the Company after appointment.

The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

Board Meetings

The Board held six meetings during the Reporting Period for discussing and approving the operation and business development of the Company, including without limitation, change in Directors, financial budget and financial statements and amendments to relevant equity incentive plans of the Company. The attendance of each Director at the Board and committee meetings of the Company during the Reporting Period, whether in person or by means of electronic communication, is detailed in the table below:

	Attendance/No. of Meetings held during the Reporting Period					
Name of Directors	**Board**	**Audit Committee[1]**	**Compensation Committee[2]**	**Nomination Committee[3]**	**Strategy Committee[4]**	**Annual General Meeting[5]**
Executive Director						
Frank Ningjun Jiang	6/6	N/A	N/A	1/1	N/A	1/1
Non-executive Directors						
Wei Li	6/6	N/A	1/1	N/A	N/A	0/1
Kenneth Walton Hitchner III[6]	1/1	N/A	N/A	N/A	N/A	N/A
Qun Zhao[7]	5/5	N/A	N/A	N/A	N/A	0/1
Yanling Cao	6/6	N/A	N/A	1/1	N/A	0/1
Xianghong Lin	6/6	N/A	N/A	N/A	N/A	0/1
Edward Hu[8]	2/2	N/A	N/A	N/A	N/A	N/A
Lian Yong Chen[9]	4/4	N/A	N/A	N/A	N/A	0/1
Independent Non-executive Directors						
Paul Herbert Chew	6/6	2/2	1/1	1/1	N/A	0/1
Ting Yuk Anthony Wu	6/6	2/2	1/1	1/1	N/A	1/1
Hongbin Sun	6/6	2/2	N/A	1/1	N/A	1/1

Notes:

(1) The Audit Committee held two meetings on March 25, 2021 and August 26, 2021, respectively, and all members of the Audit Committee attended the two meetings.

(2) The Compensation Committee held a meeting on March 17, 2021, and all members of the Compensation Committee attended the meeting.

(3) The Nomination Committee held a meeting on March 25, 2021, and all members of the Nomination Committee attended the meeting.

(4) Although no Strategy Committee meeting was held during the Reporting Period, matters relating to long-term strategic positioning, development and implementation have been discussed in Board meetings.

(5) The Company held one annual general meeting on June 23, 2021 during the Reporting Period.

(6) Mr. Kenneth Walton Hitchner III's appointment as a non-executive Director was effective from December 10, 2021.

(7) Mr. Qun Zhao's resignation as a non-executive Director was effective from December 10, 2021.

(8) Mr. Edward Hu's appointment as a non-executive director was effective from July 9, 2021.

(9) Dr. Lian Yong Chen's resignation as a non-executive Director was effective from July 9, 2021.

During the Reporting Period, apart from the six Board meetings held, the then Chairman, Dr. Frank Ningjun Jiang, who was also the sole executive Director, held one meeting with the three INEDs in the absence of the non-executive Directors and senior management of the Company.

The Company held one annual general meeting on June 23, 2021 during the Reporting Period. All proposed Shareholders' resolutions put forward at the above general meeting were resolved by poll vote and were duly passed. The vote tally of each of such resolutions was set out in the Company's announcement released on the day of the annual general meeting.

BOARD COMMITTEES

The Board has established the following committees: Audit Committee, Compensation Committee, Nomination Committee and Strategy Committee. The committees operate in accordance with their respective terms of reference established by the Board.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consists of three INEDs, namely, Dr. Paul Herbert Chew, Mr. Ting Yuk Anthony Wu and Mr. Hongbin Sun. Mr. Hongbin Sun, being the chairman of the Audit Committee, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary duties of the Audit Committee include but are not limited to:

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to review the Company's financial and accounting policies and practices; and
- to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

During the Reporting Period, the Audit Committee scheduled two meetings and all the members of the Audit Committee attended the meetings to, among other things, review the interim and annual results, review the financial statements, the risk management and internal control systems and the effectiveness of the Company's internal audit function.

Compensation Committee

The Company has established the Compensation Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Compensation Committee consists of one non-executive Director, namely Dr. Wei Li, our Chairman, and two INEDs, namely, Dr. Paul Herbert Chew and Mr. Ting Yuk Anthony Wu. Mr. Ting Yuk Anthony Wu is the chairman of the Compensation Committee.

The primary duties of the Compensation Committee include, but are not limited to, the following: (i) making recommendations to the Board of Directors on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the Reporting Period, the Compensation Committee scheduled one meeting and all the members of the Compensation Committee attended the meeting to, among other things, review the remuneration policy and structure for the Directors and senior management, make recommendations to the Board on determining the annual remuneration packages of the Directors and the senior management and other related matters, assess and review performance of the Directors and senior management.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee consists of one executive Director, namely, Dr. Frank Ningjun Jiang, our CEO and executive Director, one non-executive Director, namely, Mr. Yanling Cao, and three INEDs, namely, Dr. Paul Herbert Chew, Mr. Ting Yuk Anthony Wu and Mr. Hongbin Sun. Dr. Frank Ningjun Jiang, our CEO and executive Director, is the chairman of the Nomination Committee. Dr. Frank Ningjun Jiang ceased to act as chairman and member of the Nomination Committee and Dr. Wei Li took up the role of the chairman of the Nomination Committee with effect from May 31, 2022.

The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size, composition and diversity of the Board, assessing the independence of INEDs and making recommendations to the Board on matters relating to the appointment of Directors.

The Board has adopted a board diversity policy during the Reporting Period in order to enhance the effectiveness of our Board and to maintain a high standard of corporate governance. Our Company recognizes and embraces the benefits of having a diverse Board. We are committed to promote diversity in the Company to the extent practicable by taking into consideration a number of factors in respect of our corporate governance structure.

As of the date of this report, we have nine Directors, all of whom are male, and seven senior management members, one of whom is female and the gender ratio of our employees as of December 31, 2021 is approximately 66 males per 100 females. In recognizing the particular importance of gender diversity and that gender diversity at the Board level and our workforce can be improved, we are using our best endeavours to ensure there is gender diversity when recruiting staff at a mid to senior level so that we will have a pipeline of female employees (including senior management) and potential successors to our Board and engage more resources in training female staff who have extensive and relevant experience in our business, with the aim of promoting them to the senior management or directorship of our Group. As female representation in senior roles throughout the economy and the pool of qualified females keeps growing, we expect to appoint at least one female director who would be qualified to sit on our Board no later than December 31, 2024 in compliance with the Listing Rules, subject to our Directors:

(i) being satisfied with the competence and experience of the relevant candidate based on reasonable criteria; and

(ii) fulfilling their fiduciary duties to act in the best interests of our Company and our Shareholders as a whole when considering the appointment. We believe that such merit-based selection process with reference to our diversity policy and the nature of our business will be in the best interests of our Company and our Shareholders as a whole.

We have adopted the nomination and board diversity policy in relation to the nomination, appointment, re-appointment of new Directors and the nomination procedure of the Company, which provides the factors to consider in evaluating and selecting any candidate for directorship and sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. Pursuant to the policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to, professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. We are of the view that the Company has achieved these objectives during the Reporting Period, as our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of business management, biotech, clinical research, life science, finance, investment, auditing and accounting. They obtained degrees in various areas including medicine, immunology, chemistry, chemical physics, chemical engineering, pharmaceutical analysis, economics and accounting. Furthermore, our Directors range from 38 years old to 70 years old.

We are also committed to adopting a similar approach to promote diversity of the management (including but not limited to the senior management) of the Company to enhance the effectiveness of corporate governance of the Company as a whole.

Our Nomination Committee is delegated by our Board to be responsible for compliance with relevant codes governing board diversity under the CG Code. Our Nomination Committee will continue to review the board diversity policy from time to time to ensure its continued effectiveness.

During the Reporting Period, the Nomination Committee scheduled one meeting and all the members of the Nomination Committee attended the meeting to, among other things, review structure, size and composition of the Board and make recommendations to the Board regarding any proposed changes, assess the independence of the independent non-executive Directors, make recommendation to the Board on the re-appointment of the Directors, review the board diversity policy and training and continuing professional development for the Directors and senior management of the Company.

The director nomination procedures and process: (a) the Nomination Committee shall first review and assess factors relating to the diversity of the Board, including but not limited to professional experience, skill, knowledge and length of service, gender, age, cultural and education background, and give consideration to the candidate's willingness to devote adequate time to the Board and independence of each INED based on the requirements of the Listing Rules as amended from time to time; (b) the Nomination Committee shall then nominate suitable candidates to the Board based on the then-current and anticipated future leadership needs of the Company, with a view to achieving a sustainable and balanced development of the Company; and (c) the Nomination Committee shall also monitor and review the implementation of the nomination policy, as appropriate from time to time, and will report to the Board annually.

Strategy Committee

The Company has established the Strategy Committee which consists of one executive Director, namely, Dr. Frank Ningjun Jiang, one non-executive Director, namely, Mr. Edward Hu and one INED, namely, Dr. Paul Herbert Chew. Dr. Frank Ningjun Jiang, our CEO and executive Director, is the chairman of the Strategy Committee.

The primary duties of the Strategy Committee are to review and advise on our mid to long term strategic positioning and development plans and to monitor the implementations of our development plans.

Although no Strategy Committee meeting was held during the Reporting Period, matters relating to long-term strategic positioning, development and implementation have been discussed in Board meetings.

Investment Committee

The Company has established the Investment Committee on May 31, 2022, which consists of two non-executive Directors, namely, Mr. Edward Hu and Mr. Kenneth Walton Hitchner III, and one INED, namely, Mr. Hongbin Sun. Mr. Edward Hu is the chairman of the Investment Committee.

The primary duties of the Investment Committee include but are not limited to:

- formation of investment strategy;
- review and authorization of investment related policies and procedures, and ensure policies are strictly executed and followed;
- reviewing investment performance and advising the Board on their investment of cash, cash equivalents, financial assets, deposits, cash collateral, funds and equity shares (as applicable), taking into account of the relevant risks, necessary constraints on the deployment of the various sources and purposes of the funds to enhance the Company's investment returns;
- discussing, formulating views and advising the Board on asset allocation, selection of external portfolio investment advisor/fund manager(s) and quantum to be invested with collective investment schemes/ fund managers and appointment of custodian(s);

- approval of key investment activities and to determine whether such investment is in the interests of the Company and the shareholders of the Company as a whole, including acquisition and dispossession of investments and material matters in post-investment management;
- monitoring on investment discipline, performance and post-investment management;
- other responsibilities delegated by the Board.

As the Investment Committee was only established on May 31, 2022, the Investment Committee did not hold any meetings during the year ended December 31, 2021.

Corporate Governance Function

As no corporate governance committee has been established, the Board is responsible for, among other things, formulating and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board, reviewing and monitoring the policies and practices on compliance with legal and regulatory requirements, reviewing and monitoring the training and continuous professional development of Directors and senior management, developing, reviewing and monitoring the code of conduct applicable to employees and directors and reviewing the corporate governance compliance with the CG Code and the disclosures in the Corporate Governance Report.

The Corporate Governance Report has been reviewed by the Board in the discharge of its corporate governance function during the Reporting Period.

DELEGATION BY THE BOARD

The Board delegates its powers and authorities from time to time to the Board Committees in order to ensure operational efficiency and that specific issues are being handled by personnel with the relevant expertise. The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the Company.

The types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole and material changes thereof;
- business plan, budgets and any subsequent material changes, material public announcements and matters referred to the Board by Board Committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditor;
- remuneration of Directors and senior management; and
- communication with key stakeholders, including Shareholders and regulatory bodies.

The types of decisions that the Board has delegated to the management include:

- approving the extension of the Group's activities not in a material manner into a new geographic location or a new business;
- approving assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving external payments up to a certain limit;
- conducting investments in line with the investment policy of the Company and under the Investment Committee's instructions;
- approving the entering into of any connected transactions not requiring disclosure under the Listing Rules;
- approving the nomination and appointment of personnel other than the member of the Board, senior management and auditor;
- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and cessation of nonmaterial part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board takes overall responsibility for risk management and internal control systems, and is responsible for reviewing the effectiveness of these systems, evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company maintains robust and effective risk management and internal control systems (including reviewing the relevant functions), so as to safeguard shareholders' investment and the Company's assets. The Company has continued to make efforts to strengthen and improve its risk management and internal control systems as well as enhance the control procedures, so as to improve operating efficiencies and reduce operating risks.

Risk Management

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

We have adopted a consolidated set of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with our strategic objectives and remediation action plans on an on-going basis. The legal and finance departments of the Company will conduct independent review on the sufficiency and effectiveness of the risk management and internal control system. Our Audit Committee, and ultimately our Directors, will supervise the implementation of our risk management policies from time to time. The monitoring and the internal control measures of management at different levels of the Company are the first defence of risk management and internal control; the senior management (including risk management and financial control) of the Company is the second defence of risk management and internal control; the Audit Committee under the Board and legal and finance department are the third defence of risk management and internal control.

The following key principles outline our Group's approach to risk management and internal control:

Our Audit Committee will oversee and manage the overall risks associated with our business operations, including (i) reviewing and approving our risk management policy to ensure that it is consistent with our corporate objectives; (ii) reviewing and approving our corporate risk tolerance; (iii) monitoring the most significant risks associated with our business operations and our management's handling of such risks; (iv) reviewing our corporate risk in the light of our corporate risk tolerance; and (v) monitoring and ensuring the appropriate application of our risk management framework across our Group.

Our Vice President of Finance will be responsible for (i) formulating and updating our risk management policy and target; (ii) reviewing and approving major risk management issues of our Company; (iii) promulgating risk management measures; (iv) providing guidance on our risk management approach to the relevant departments in our Company; (v) reviewing the relevant departments' reporting on key risks and providing feedback; (vi) supervising the implementation of our risk management measures by the relevant departments; (vii) ensuring that the appropriate structure, processes and competences are in place across our Group; and (viii) reporting to our Audit Committee on our material risks.

The relevant departments in our Company, including the finance department, the legal & compliance department and the operations & human resources department, are responsible for implementing our risk management policy and carrying out our day-to-day risk management practice. In order to formalize risk management across our Group and set a common level of transparency and risk management performance, the relevant departments will (i) gather information about the risks relating to their operation or function; (ii) conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives; (iii) prepare a risk management report annually for our senior management team's review; (iv) continuously monitor the key risks relating to their operation or function; (v) implement appropriate risk responses where necessary; and (vi) develop and maintain an appropriate mechanism to facilitate the application of our risk management framework.

In order to further improve the risk management and internal control systems, establish good systems and work procedure, execute and implement work monitoring, fulfill a full work flow risk management system to achieve early prevention, and better monitor at present and subsequent follow-up and implementation of such systems, the Company has organized each functional department to review and update the various management systems of the Group from time to time.

Internal Control

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. Our Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the internal control systems.

During the Reporting Period, we conducted two reviews on our internal control system designed to manage the risks and uncertainties that may cause the Group's financial conditions or business performance to be materially different from the expected or historical results. Below is a summary of the internal control policies, measures and procedures we have implemented:

- We have adopted various measures and procedures regarding each aspect of our business operation, such as protection of intellectual property, environmental protection and occupational health and safety.

- We have developed standard operating procedures governing our activities including an integrated procurement-to-pay process, standardized expense accrual methodology and budgeting and tracking mechanism.

- We have established the enterprise resource planning system, an automated and standardized procedure to increase transparency and efficiency in monitoring online vendor registration and purchase requisition and online contract management.

- We provided our employees with our employee handbook and the code of conduct, as amended from time to time. To strengthen compliance awareness, we established the employee orientation program and also provide periodic internal and external compliance training to our employees as part of our employee training program.

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

- Our Audit Committee assists the Board to monitor the effectiveness of the risk management and internal control systems. Our Audit Committee maintains regular dialogue with the Company's external auditors and conducts review of the Company's financial statements. After completion of its internal audit, our Audit Committee made recommendations to our Directors on the appointment and removal of external auditors and rendered advice in respect of financial reporting as well as oversee internal control procedures of our Group. The Company has established a compliance committee to review grants and sponsorships and other compliance initiatives to enhance compliance awareness through daily guidance.

- Our Board evaluated the design and operating effectiveness of the internal control systems of the Company and did not identify any material weaknesses as a result of the evaluation, except for the internal control weaknesses identified by the Independent Advisor from the Investigation which are subject to certain rectification measures as stipulated below in this section.

- We have engaged a PRC law firm to advise us on and keep us abreast with PRC laws and regulations on a regular basis (especially for the pharmaceutical and life science sector). We will continue to arrange various trainings to be provided by external advisors from time to time when necessary and/or any appropriate accredited institution to update our Directors, senior management, and relevant employees on the latest PRC laws and regulations.

Reference is made to the announcements of the Company dated March 18, 2022, March 23, 2022 and May 31, 2022, respectively. Capitalised terms used below have the same meanings as those defined in these announcements. The Company refers to the internal control weaknesses identified by the Independent Advisor as disclosed in the announcement of the Company dated May 31, 2022. Following the Investigation, the Board has established an Investment Committee to assist the Board to deal with investment related matters. For details, please see the section headed "Board Committees – Investment Committee". In addition, the management of the Group has reviewed the Group's annual results for the year ended December 31, 2021 and material transactions, and has reported their review results to the Board. Furthermore, the Company has been and will be actively taking the following internal control rectification measures (the "**Rectification Measures**"):

(i) to pursue an early redemption of the Investment by giving instructions to CMBI by May 31, 2022;

(ii) to enhance the Company's investment policy and procedure according to the Company's investment strategy and risk appetite by June 30, 2022;

(iii) to require well-maintained documentation, including supporting documents for investments by June 30, 2022;

(iv) to re-emphasise to the finance staff and Company management as to the application of the Company's investment policy by May 31, 2022;

(v) to lower the signing authority threshold for outside payments from USD50 million to USD3 million by May 31, 2022;

(vi) to review and enhance internal control around investment and payment policies and procedures with sufficient segregation of duties and checks and balance by June 30, 2022, including but not limited to the implementation and enhancement of the bank account management policy, investment management policy and payment management policy and requires all Directors, senior management and accounting and finance personnel to strictly adhere to these policies;

(vii) to review and enhance internal control over the employee exit procedure by June 30, 2022;

(viii) to provide trainings to senior management and the accounting and finance personnel of the Group by June 30, 2022, in particular, on further strengthening internal financial and accounting policies, preparation of comprehensive accounting memo to support the accounting basis for complex or significant transactions;

(ix) to adopt and circulate a detailed guideline relating to notifiable and connected transactions under the Listing Rules and arrange trainings to be provided by its legal advisors to the Directors, senior management and accounting and finance personnel by June 30, 2022 and on regular basis, on the Listing Rules, particularly in relation to the subscription of different types of financial products aiming to strengthen their understanding to identify the circumstances which are expected to trigger the announcement requirement under the Listing Rules and potential issues at an early stage to avoid the recurrence of delay in disclosure for future subscriptions of financial products should such obligations arise;

(x) with immediate effect, prior to entering into any relevant potential transaction in the future, to perform size test analysis by the accounting and finance personnel in consultation with the legal department and external counsel to ensure compliance with the Listing Rules;

(xi) with immediate effect, to strengthen the coordination and reporting arrangements for notifiable transactions and connected transactions among its subsidiaries;

(xii) to enhance regular reconciliation process for major accounts including bank balances, money market funds and other investments (the "**Reconciliation**") commencing from May 31, 2022, which shall be reviewed by the Vice President of Finance to ensure accuracy and completeness, with all outstanding items to be clearly explained and promptly investigated to ensure the validity and accuracy of the balances, and include the Bank Reconciliation in the Company's management accounts to be submitted to the Board for consideration on a regular basis;

(xiii) to further strengthen the implementation of dual approval control for bank transfer payments via the online banking platform by May 31, 2022; and

(xiv) to seek external legal or other professional advice on remedies on economic loss of the Investment and any proposed material transactions and corporate actions in the future.

The Company has already engaged an external internal control consultant with a view of implementing these measures as soon as reasonably practicable, and in any case, with a target of implementing all such measures by the end of June 2022. In addition, the Company will have on-going and regular internal monitoring to ensure the effectiveness of the design, implementation, and operation of the mentioned remedial actions and enhancement of internal controls. For further details on the Investment and the key findings of the Investigation, please refer to the announcement of the Company dated May 31, 2022. The Board believes that the Company's non-compliance with the Listing Rules in connection with the Investment as disclosed in the announcement of the Company dated May 31, 2022 is a one-off incident as a result of unintentional and inadvertent oversight. The Board is of the opinion that the above-mentioned series of Rectification Measures will enable the Company's risk management and internal control systems to be adequate and effective.

As of the date of this report, the Company has established and will continue to maintain strict anti-corruption policies among our sales personnel and distributors in our upcoming sales and marketing activities. We will also ensure that our sales and marketing personnel comply with applicable promotion and advertising requirements, which include restrictions on promoting drugs for unapproved uses or patient populations, and limitations on industry-sponsored scientific and educational activities.

Our Board and senior management also strive to promote an ethical culture within our Company. We also have a whistle blowing policy that serves the purpose of establishing whistleblowing procedures for employees and other relevant external parties of our Company, in order to report and escalate any suspicious misconducts. In accordance with the policy, we protect all whistleblowers from any kind of retaliation. All the information provided by the whistleblowers will be strictly confidential.

Investment Risk Management

We may engage in short-term investments with surplus cash on hand. Our primary objective for short-term investments is to preserve principal through the minimization of both default and market risk. During the Reporting Period, our finance department, under the supervision of our Vice President of Finance, is responsible for managing our short-term investment activities. Before making a proposal to invest in wealth management products, our finance department must assess our cash flow and operational needs and capital expenditures. On May 31, 2022, the Company also established a new Investment Committee which is responsible for approving the Company's investment strategy, developing investment policies and processes, approving investment decisions and reviewing investment performance. For details, please refer to the section headed "Board Committees – Investment Committee."

We operate under a Board approved investment policy which governs the investment of our funds and is reviewed from time to time by our Board. Our investment policy only allows investment in a specific list of instruments for investment, including US government securities, US corporate securities, US municipal securities, US money bank obligations and money market funds backed by the above instruments. To ensure a diversified portfolio holding, no purchase of any single issuer can represent more than five percent of the total portfolio market value at the time of purchase, with the exception of the U.S. government, its agencies, or municipals defeased with U.S. government securities for which no limit is imposed.

Our investment strategy strives to minimize risk by reasonably and conservatively matching the maturities of the portfolio securities to anticipated operating cash requirements. Our investment decisions are made on a case-by-case basis that considers multiple factors, such as general market conditions and the anticipated benefit and potential loss of the investment.

Our portfolios to date have been required to hold only instruments with an effective final maturity of 12 months or less, with effective final maturity being defined either as the obligation of the issuer to repay principal and interest or the discretionary ability to put the security back to the issuer. The initial target range for the average maturity of our portfolio is 12 months. Our investments to date have been required to be denominated and held in U.S. dollars with readily ascertainable market value. Save as disclosed in the announcement of the Company dated May 31, 2022 in relation to the Investment, our investments do not participate in any derivative securities or bank loans.

We believe that the enhancement of our Company's investment policy and procedure according to the Company's investment strategy and risk appetite, as set out above in the Rectification Measures, will strengthen our internal controls and enable our internal investment policies and related rick management mechanism to be effective and adequate. We may make investments that meet the above criteria after consultation and approval by our Board where we believe it is prudent to do so.

Effectiveness of Risk Management and Internal Control

The Audit Committee, on behalf of the Board, continuously reviews the risk management and internal control systems. The review process comprises, among other things, meetings with management of business groups, internal audit team, legal personnel and the external auditors, reviewing the relevant work reports and information of key performance indicators, and discussing the major risks with the senior management of the Company. During the Reporting Period, among other things, the Board has reviewed the Group's financial operation and compliance controls, the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, audit and financial reporting functions.

Furthermore, while the Company does not have an internal audit department, the Company has an internal audit function performed by the Board's audit committee and the senior management. Company has engaged external consultant to (i) perform audit on key functions that may impose risks (such as procurement and payment), and (ii) review and enhance internal control, risk management on investment, payment and bank account management. The Company considers that the above arrangement in place has met the requirements for an internal audit function and it will continue to assess whether there is a need to set up a standalone internal audit department to further enhance the effectiveness of the Company's internal controls. The Audit Committee has reviewed the Company's internal audit function and the internal control systems for the year ended December 31, 2021. A confirmation regarding the effectiveness of these systems has been provided to the Board for the year ended December 31, 2021.

In addition, the Board believes that the Company's accounting and financial reporting functions have been performed by staff of the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. Through the above-mentioned series of Rectification Measures, the Company has been and will be able to achieve an effective and adequate risk management and internal control. As part of the Rectification Measures, the Board will provide trainings to senior management and the accounting and finance personnel in relation to the investment related policies and the Listing Rules, which the Board believes will enable the qualifications and experiences of the staff in the areas of accounting, internal audit and the financial reporting functions to be adequate.

Policy on the Disclosure of Inside Information

The Company has put in place an internal policy for the handling and disclosure of inside information in compliance with the SFO. The internal policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management and relevant employees a general guide in 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 Board is aware of its obligations to announce any inside information in accordance with the Listing Rules.

SHAREHOLDERS

The Company strives to provide ready, equal, regular and timely disclosure of information that is material to the investor community. As such, the Company has developed and maintains the Shareholders' communication policy, which is available on the Company's website. In accordance with such policy, the Company works to maintain effective and on-going communication with Shareholders so that they, along with prospective investors, can exercise their rights in an informed manner based on a good understanding of the Group's operations, businesses and financial information. The Company also encourages Shareholders' active participation in annual general meetings and other general meetings or other proper means. To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting. Based on our review of the initiatives taken by us, we are of the view that the implementation of the Shareholders' communication policy is satisfactory and effective during the Reporting Period.

A summary of the disclosure of interests of the substantial shareholders of the Company is set out in "Report of the Directors" of this annual report.

Convening of Extraordinary General Meeting and Putting Forward Proposals

Any one or more members holding as of date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition. A written requisition shall be deposited with our joint company secretaries at the principal office of the Company in Hong Kong at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong. If within 21 days of such deposit the Board fails to proceed to convene such meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions in the Articles of Association or in the Cayman Companies Act for putting forward proposals of new resolutions by Shareholders at general meetings. Shareholders who wish to move forward a resolution may request the Company to convene a general meeting in accordance with the procedures mentioned above.

As regards to proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, namely, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Shareholders who wish to put enquiries to the Board can send their enquiries to the head office of the Company at 21/F, No. 399 West Haiyang Road, New Bund Times Square, Pudong New Area, Shanghai, PRC or send email to ir@cstonepharma.com. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Corporate communication of the Company will 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 language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

Dividend Policy

Subject to the Articles of Association and other applicable laws and regulations, the Company targets to formalize its dividend policy once the Group commences to have products approved for commercial sale and generate revenue from product sales. Any proposed distribution of dividends will be subject to the discretion of the Board and the approval of the Shareholders. Recommendations for distribution of dividends will be made after taking into account the results of operations, financial condition, operating requirements, capital requirements, Shareholders' interests and any other conditions that the Board may deem relevant.

As at December 31, 2021, no arrangement was reached pursuant to which the shareholders of the Company waived or agreed to waive their dividends.

JOINT COMPANY SECRETARIES

As of the date of this report, Ms. Jeanie Lau, an Assistant Vice President of SWCS Corporate Services Group (Hong Kong) Limited, together with Mr. Ning He, serve as the joint company secretaries of the Company, and each of them has taken no less than 15 hours of relevant professional training during the Reporting Period and has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

Reference is made to the Company's announcements dated January 25, 2021 and June 3, 2021. Ms. Ching Man Yeung resigned as the company secretary of the Company on January 25, 2021; Mr. Ning He, our secretary of the Board of Directors and Head of Legal Affairs was appointed as the joint company secretary of the Company with effect from January 25, 2021; Mr. Leong Yin Lee was appointed as the joint company secretary of the Company on January 25, 2021 and resigned on June 3, 2021; and Ms. Jeanie Lau, an Assistant Vice President of SWCS Corporate Services Group (Hong Kong) Limited, was appointed as one of the joint company secretaries of the Company with effect from June 3, 2021. Mr. Ning He is the primary contact person whom Ms. Jeanie Lau contacts.

For more information on Mr. Ning He and Ms. Jeanie Lau, please refer to the Company's announcements dated January 25, 2021 and June 3, 2021.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2021, and 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 Auditor about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report".

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the auditors to the Group during the Reporting Period was approximately as follows:

Type of Services	Total fees paid and payable *(RMB' 000)*
Audit services	1,620
Non-audit services	
Interim review services	770
Compliance service	792
Total	3,182

Note: The Company appointed Deloitte Touche Tohmatsu, Certified Public Accountants as the external auditor for the year ended December 31, 2021. A statement by Deloitte about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report on pages 101 to 105 of this annual report.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company's constitutional documents consist of the Memorandum of Association and the Articles of Association. The Memorandum of Association and the Articles of Association have been adopted on January 30, 2019 with effect from the Listing Date. There has been no change in the Memorandum of Association and the Articles of Association during the Reporting Period.

Deloitte. 德勤

TO THE SHAREHOLDERS OF CSTONE PHARMACEUTICALS
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CStone Pharmaceuticals (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 106 to 181, which comprise the consolidated statement of financial position as at December 31, 2021, 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 a summary of significant accounting policies.

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, 2021, 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 (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants including International Independence Standards (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 matter	How our audit addressed the key audit matter

Existence and accuracy of fair value of the Group's fund linked note classified as financial assets at fair value through profit or loss ("FVTPL")

During the year ended December 31, 2021, the Group invested in a fund linked note issued by a financial institution (the "Investment") which was classified as financial assets at FVTPL in accordance with IFRS 9 *Financial Instruments* as set out in note 19 to the consolidated financial statements. The Investment is non-cash equivalent and non-principal protected whose return is linked to the investment in the class A shares of a segregated portfolio held under a segregated portfolio company registered in the Cayman Islands (the "Fund"). The Fund invested in portfolio of (1) shares and options of companies listed on the exchange in Mainland China, Hong Kong and the United States of America, (2) a private equity and (3) cash and other current assets. As at December 31, 2021, the fair value of the Investment amounted to RMB122,895,000. For the year ended December 31, 2021, the Group recognised loss on fair value changes arising from the Investment amounted to RMB64,214,000.

The fair value of the Investment is established by using the Scenario-Based method. The key inputs to the valuation model are discounts for lack of marketability and probability under different scenario of the private equity investment, both of which require significant management estimates and assumptions as set out in notes 4 and 32c to the consolidated financial statements.

We identified the existence and accuracy of the fair value of the Investment as a key audit matter because of the complex structure of the Investment and the significant degree of management estimates involved in determination of its fair value and its significance to the results and financial position of the Group.

Our procedures in relation to the existence and accuracy of the fair value of the Investment included:

- Obtaining an understanding the terms of the agreements related to the Investment;
- Sending confirmation to the financial institution and obtaining the payment record of the Investment to verify the validity of the Investment;
- Conducting interviews with the relevant counterparties;
- Evaluating the objectivity and competence of the management of the Group in assessing the valuation model and the key inputs adopted in the determination of fair value of the Investment;
- Involving our internal valuation specialist to:
  - Enquire the management for an understanding and assessing the methodology adopted by the management of the Group in the determination of fair value of the Investment;
  - Evaluate the reasonableness in the key inputs used in the valuation model by checking to the supporting documents; and
  - Challenge the valuation model and inputs used by the management of the Group in the fair value determination.

Key audit matter	How our audit addressed the key audit matter

Cut-off of research and development expenses

During the year ended December 31, 2021, the Group incurred research and development ("R&D") expenses of RMB1,305 million. The recording of outsourcing service fees to the appropriate financial reporting period and the corresponding accruals as at the end of the reporting period were based on the progress of the R&D projects. Outsourcing service fees of RMB591 million were accrued as at December 31, 2021 as set out in note 22 to the consolidated financial statements.

We identified the cut-off of outsourcing service fees as a key audit matter due to its significant amount and the risk of not accruing outsourcing service fees incurred for services provided by contract research organisations and contract manufacturing organisations ("CRO") and clinical trial centres (collectively referred to as the "Outsourced Service Providers") in the appropriate financial reporting period.

Our procedures in relation to the cut-off of the R&D expenses included:

- Obtaining an understanding of key controls of the management's basis and assessment in relation to the accrual process of the R&D expenses, including service fees paid or payable to the Outsourced Service Providers;
- For the expenses accrued to the Outsourced Service Providers as of December 31, 2021, performing test of details, on a sample basis, by:
  - (1) checking the respective contract terms and/or milestones of the relevant agreements and the progress reported by the representatives of the relevant Outsourced Service Providers;
  - (2) sending confirmation to confirm the progress of the outsourcing services provided for the year ended December 31, 2021; and
- For the service fees paid to clinical trial centres, testing the accrual of the clinical trial related costs, on a sample basis, with reference to the clinical trial data and terms of services.

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 of the Company 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 of the Company 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 ISAs 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 ISAs, 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 of the Company.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

We communicate with 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 Chan Chun Kit Tommy.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
May 31, 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended December 31, 2021

	NOTES	2021 RMB'000	2020 RMB'000
Revenue	5	**243,718**	1,038,832
Cost of revenue		**(106,832)**	(241,421)
Gross profit		**136,886**	797,411
Other income	7	**45,773**	51,671
Other gains and losses	7	**(134,188)**	(179,419)
Research and development expenses		**(1,304,945)**	(1,404,684)
Selling and marketing expenses		**(363,788)**	(142,150)
Administrative expenses		**(297,596)**	(342,508)
Finance costs	8	**(2,242)**	(1,320)
Loss for the year	9	**(1,920,100)**	(1,220,999)
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**399**	(1,274)
Fair value gain on debt instruments at fair value through other comprehensive income ("FVTOCI")		**–**	31
Reclassified to profit or loss upon redemption of debt instruments at FVTOCI		**–**	(31)
Other comprehensive income (expense) for the year		**399**	(1,274)
Total comprehensive expense for the year		**(1,919,701)**	(1,222,273)
Loss per share	13	***RMB***	*RMB*
Basic		**(1.65)**	(1.17)
Diluted		**(1.65)**	(1.17)

Consolidated Statement of Financial Position

At December 31, 2021

	NOTES	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	14	**154,166**	39,367
Right-of-use assets	15	**28,631**	27,175
Prepayment for acquisition of property, plant and equipment and intangible assets		**5,126**	35,411
Intangible assets	16	**70,539**	6,509
Financial assets measured at fair value through profit or loss ("FVTPL")	19	**3,188**	–
Other receivables	18	**52,158**	81,987
		313,808	190,449
Current assets			
Trade receivables	17	**117,598**	–
Deposits, prepayments and other receivables	18	**52,345**	178,040
Financial assets measured at FVTPL	19	**122,895**	10,125
Inventories	20	**61,363**	–
Restricted bank deposits		**–**	720
Time deposits with original maturity over three months	21	**860,720**	358,870
Cash and cash equivalents	21	**742,724**	3,024,548
		1,957,645	3,572,303
Current liabilities			
Trade and other payables and accrued expenses	22	**881,549**	708,525
Bank borrowings	23	**30,700**	2,662
Deferred income	24	**7,451**	7,210
Lease liabilities	25	**13,248**	8,652
		932,948	727,049
Net current assets		**1,024,697**	2,845,254
Total assets less current liabilities		**1,338,505**	3,035,703

Consolidated Statement of Financial Position

At December 31, 2021

	NOTES	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Bank borrowings	23	**115,811**	54,340
Deferred income	24	**1,247**	8,698
Lease liabilities	25	**14,439**	18,205
		131,497	81,243
Net assets		**1,207,008**	2,954,460
Capital and reserves			
Share capital	26	**796**	787
Treasury shares held in trusts	26	**(11)**	(19)
Reserves		**1,206,223**	2,953,692
Total equity		**1,207,008**	2,954,460

The consolidated financial statements on pages 106 to 181 were approved and authorised for issue by the Board of Directors on May 31, 2022 and are signed on its behalf by:

Dr. Frank Ningjun Jiang
DIRECTOR

Dr. Wei Li
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2021

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000 (note a)*	Treasury shares held in the trusts *RMB'000*	Share-based payment reserve *RMB'000*	Foreign currency translation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At January 1, 2020	687	6,651,201	(92,688)	(30)	532,930	(1,802)	(4,608,716)	2,481,582
Loss for the year	–	–	–	–	–	–	(1,220,999)	(1,220,999)
Other comprehensive expense for the year	–	–	–	–	–	(1,274)	–	(1,274)
Total comprehensive expense for the year	–	–	–	–	–	(1,274)	(1,220,999)	(1,222,273)
Restricted stock units exercised under trusts *(note 26)*	–	295,533	(29)	29	(295,533)	–	–	–
Recognition of equity-settled share-based payment *(note 27)*	–	–	–	–	356,023	–	–	356,023
Repurchase and cancellation of shares *(note 26)*	(2)	(21,798)	–	–	–	–	–	(21,800)
Exercise of share options *(note 27)*	5	43,536	–	–	(38,533)	–	–	5,008
Shares issued to trusts and converted into treasury shares held in trusts *(note 26)*	18	–	–	(18)	–	–	–	–
Ordinary shares issued by CStone Pharmaceuticals (the "Company")	79	1,355,841	–	–	–	–	–	1,355,920
At December 31, 2020	787	8,324,313	(92,717)	(19)	554,887	(3,076)	(5,829,715)	2,954,460
Loss for the year	–	–	–	–	–	–	(1,920,100)	(1,920,100)
Other comprehensive income for the year	–	–	–	–	–	399	–	399

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2021

	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000 (note a)*	Treasury shares held in the trusts *RMB'000*	Share-based payment reserve *RMB'000*	Foreign currency translation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Total comprehensive income (expense) for the year	–	–	–	–	–	399	(1,920,100)	(1,919,701)
Restricted stock units exercised under trusts *(note 26)*	–	148,645	(11)	11	(148,645)	–	–	–
Recognition of equity-settled share-based payment *(note 27)*	–	–	–	–	222,671	–	–	222,671
Exercise of share options *(note 27)*	6	58,896	–	–	(42,072)	–	–	16,830
Shares issued to trusts and converted into treasury shares held in trusts *(note 26)*	3	–	–	(3)	–	–	–	–
Withhold the number of equity instruments equal to the monetary value of the employee's tax obligation *(note 18)*	–	(67,252)	–	–	–	–	–	(67,252)
At December 31, 2021	796	8,464,602	(92,728)	(11)	586,841	(2,677)	(7,749,815)	1,207,008

Note:

(a) Other reserves included (1) share-based payment expenses recognised as deemed losses to non-controlling shareholders; (2) differences between (i) the carrying amounts of net assets attributable to the non-controlling shareholders at the date of subscription of paid in capital of 基石藥業(蘇州)有限公司 ("CStone Suzhou"), and (ii) fair value of the respective conversion features of preferred shares at the date of capital injection and the relevant proceeds received; (3) adjustment to non-controlling interests in CStone Suzhou as a result of additional capital injection by the Company and its subsidiaries (collectively referred to as the "Group"); (4) effect of exercise of put option by a non-controlling shareholder to convert into the equity interests in a subsidiary to the Company's Preferred Shares; and (5) restricted stock units granted to several employees which were exercised.

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2021

	2021 *RMB'000*	2020 *RMB'000*
OPERATING ACTIVITIES		
Loss for the year	**(1,920,100)**	(1,220,999)
Adjustments for:		
Depreciation of property, plant and equipment	**5,611**	6,446
Depreciation of right-of-use assets	**11,300**	5,580
Amortisation of intangible assets	**5,750**	2,775
Net foreign exchange losses	**69,130**	181,836
Net loss (gain) on fair value changes of financial assets measured at FVTPL	**64,214**	(396)
Gain on redemption of debt instruments at FVTOCI	**–**	(31)
Share-based payment expenses	**222,671**	356,023
Net loss on disposal of property, plant and equipment	**901**	–
Interest income	**(9,803)**	(24,161)
Changes in fair value of money market funds	**(10)**	(1,990)
Finance costs	**2,242**	1,320
Government grants income related to property, plant and equipment	**(450)**	(451)
Operating cash flows before movements in working capital	**(1,548,544)**	(694,048)
Increase in trade receivables	**(117,598)**	–
Decrease (increase) in deposits, prepayments and other receivables	**88,488**	(72,913)
Increase in inventories	**(61,363)**	–
Increase in trade and other payables and accrued expenses	**161,753**	257,811
(Decrease) increase in deferred income	**(6,760)**	1,080
NET CASH USED IN OPERATING ACTIVITIES	**(1,484,024)**	(508,070)
INVESTING ACTIVITIES		
Placement of time deposits with maturity over three months	**(860,720)**	(358,870)
Withdrawal of time deposits with maturity over three months	**353,403**	1,583,439
Interest received	**9,692**	22,863
Receipt of return from money market funds	**10**	1,990
Prepayment for acquisition of property, plant and equipment and intangible assets	**(5,126)**	(35,411)
Purchase of property, plant and equipment	**(85,900)**	(31,628)
Purchase of intangible assets	**(58,110)**	(4,407)
Purchase of financial assets measured at FVTPL	**(190,297)**	–
Proceeds on disposal of financial assets at FVTPL	**10,125**	2,000
Placement of restricted bank deposits	**–**	(100)
Withdraw of pledged bank deposits	**720**	–
Payments of rental deposits	**(349)**	(3,636)
Proceeds on redemption of debt instruments at FVTOCI	**–**	4,492
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(826,552)**	1,180,732

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2021

	2021 *RMB'000*	2020 *RMB'000*
FINANCING ACTIVITIES		
Interest paid	**(2,242)**	(1,320)
New bank borrowings raised	**96,215**	58,582
Repayments of bank borrowings	**(6,706)**	(1,580)
Payments on repurchase of shares	**–**	(21,800)
Repayment of lease liabilities	**(11,793)**	(5,381)
Exercise of share options	**16,830**	5,008
Proceeds on issue of ordinary shares	**–**	1,355,920
NET CASH FROM FINANCING ACTIVITIES	**92,304**	1,389,429
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,218,272)**	2,062,091
Effects of foreign exchange rate changes	**(63,552)**	(163,979)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3,024,548**	1,126,436
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**742,724**	3,024,548

1. GENERAL

CStone Pharmaceuticals (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since February 26, 2019. 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.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in research and development of highly complex biopharmaceutical products and sale of pharmaceutical products.

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

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Company and its subsidiaries (the "Group") has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatory effective for the annual periods beginning on or after January 1, 2021 for the preparation of the consolidated financial statements:

Amendment to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the IASB issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	*Insurance Contracts and the related Amendments*[3]
Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendment to IFRS 16	*Covid-19-Related Rent Concessions beyond June 30, 2021*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[3]
Amendments to IAS 8	*Definition of Accounting Estimate*[3]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Amendments to IFRS Standards	*Annual Improvements to IFRS Standards 2018-2020*[2]

1 Effective for annual periods beginning on or after April 1, 2021.
2 Effective for annual periods beginning on or after January 1, 2022.
3 Effective for annual periods beginning on or after January 1, 2023.
4 Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of all these new and 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 SIGNIFICANT ACCOUNTING POLICIES

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 ("Listing Rules") and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies

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.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers

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

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

Except for granting of a license that is distinct from other promised goods or services, control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

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

For granting of a license that is distinct from other promised goods or services, the nature of the Group's promise in granting a license is a promise to provide a right to access the Group's intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property to which the customer has rights;
- the rights granted by the license directly expose the customer to any positive or negative effects of the Group's activities; and
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If the criteria above are met, the Group accounts for the promise to grant a license as a performance obligation satisfied over time. Otherwise, the Group considers the grant of license as providing the customers the right to use the Group's intellectual property and the performance obligation is satisfied at a point in time at which the license is granted.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers *(continued)*

Variable consideration

For licence fee income and research that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using the most likely amount, which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Notwithstanding the above criteria, the Group shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:

- the subsequent sale or usage occurs; and
- the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

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, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, or modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a 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.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles, equipment and office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases *(continued)*

The Group as a lessee (continued)

Right-of-use assets

The cost of right-of-use assets includes the amount of the initial measurement of the lease liability.

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

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

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

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

***Leases** (continued)*

The Group as a lessee (continued)

Lease liabilities

At the commencement date of a lease, the Group recognises 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases *(continued)*

The Group as a 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 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 asset.

When the modified contract contains one or more additional 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. The associated non-lease components are included in the respective lease components.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised 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.

Government 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 recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Employee benefits

Retirement benefits costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment

Short-term employee benefits

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

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Share-based payment *(Continued)*

Equity-settled share-based payments transactions

Shares, share options and restricted share units granted to employees

Equity-settled share-based payments to employees 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 (share-based payment 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 recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. For shares, share options and restricted share units that vest immediately at the date of grant, the fair value of the shares, share options and restricted share units granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based payment 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 recognised in share-based payment reserve will continue to be held in share-based payment reserve.

When shares and restricted share units granted are vested, the amount previously recognised in share-based payment reserve will be transferred to share premium.

The Group is obliged by tax laws and regulations to withhold an amount for an employee's tax obligation associated with a share-based payment which the Group is then required to transfer (normally in cash) to the tax authority on the employee's behalf. To fulfil this obligation, the terms of the Group's share-based payment arrangement permit the Group to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments issued to the employee when the share-based payments are exercised or vest.

Such an arrangement is classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

The payment to the tax authority to settle an employee's tax obligation is accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss 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 recognised 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 recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised 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 recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise 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 realised, 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 recognised 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

***Taxation** (continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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 taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Property, plant and equipment

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

Construction in progress is carried at cost, less any recognised 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 and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress 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 each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised 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 an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation 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.

Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

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

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

An intangible asset is derecognised 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 recognised in profit or loss when the asset is derecognised.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those 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.

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 to reduce the carrying amount of the 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 recognised immediately in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets *(continued)*

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 recognised 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 recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories 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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Cash and cash equivalents

Cash and cash equivalents include cash at banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and within three months of maturity from the date of acquisition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised 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 at FVTPL ("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 recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised 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.

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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;
- 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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised 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 recognised by applying the effective interest rate to the amortised 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 recognised 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 amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group perform impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, rental deposits, other receivables, time deposits with original maturity over three months, cash at banks and restricted bank deposits) 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. Assessments are 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 each reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets 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, or 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; and
- 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 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (continued)

(i) Significant increase in credit risk (continued)

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

(ii) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 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 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 reorganisation; 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets 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, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. 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 recognised 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.

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 amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in FVTOCI reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Derecognition of financial assets

The Group derecognises 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.

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

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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 recognised at the proceeds received, net of direct issue costs.

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

Financial liabilities

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises 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 derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENT 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 and liabilities 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 assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), 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 recognised in the consolidated financial statements.

Research and development expenses

Development costs incurred on the Group's drug product pipelines are capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development costs which do not meet these criteria are expensed when incurred. Management will assess the progress of each of the research and development projects and determine the criteria are met for capitalisation. During the years ended December 31, 2020 and 2021, all development costs are expensed when incurred.

Key sources of estimation uncertainty

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 within the next financial year, are described below.

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

Fair value of the Group's fund linked note classified as financial assets measured at FVTPL

During the year ended December 31, 2021, the Group invested in a fund linked note issued by a financial institution (the "Investment") as set out in note 19. The Group recorded the Investment as financial assets measured at FVTPL for which no quoted prices in an active market exist. The fair value of the Investment is established by using valuation techniques, which is based on the scenario-based method involving various parameters and inputs. The key inputs to the valuation includes discounts for lack of marketability ("DLOM") and probabilities to business combination scenario under different scenario of the private equity fund which require the Group's management's estimates. The estimates and assumptions are reviewed by the management of the Group and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the Investment measured at FVTPL. The fair value of the Investment measured at FVTPL as at December 31, 2021 is RMB122,895,000 (2020: nil).

Useful lives of property, plant and equipment, right-of-use assets and intangible assets

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment, right-of-use assets and intangible assets. This estimate is referenced to useful lives of property, plant and equipment, right-of-use assets and intangible assets of similar nature and functions in the industry. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write-off or write-down obsolete assets that have been abandoned or sold. At December 31, 2021, the carrying amount of property, plant and equipment is approximately RMB154,166,000 (2020: RMB39,367,000) as disclosed in note 14. At December 31, 2021, the carrying amount of right-of-use assets is approximately RMB28,631,000 (2020: RMB27,175,000) as disclosed in note 15. At December 31, 2021, the carrying amount of intangible assets is approximately RMB70,539,000 (2020: RMB6,509,000) as disclosed in note 16.

5. REVENUE

Disaggregation of revenue from contracts with customers

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
Types of goods or services		
Sales of pharmaceutical products	**162,764**	–
License fee income	**80,954**	1,038,832
	243,718	1,038,832
Timing of revenue recognition		
A point in time	**243,718**	1,038,832

Sales of pharmaceutical products

For the sale of pharmaceutical products, revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to the specified location designated by the customers. Following delivery, the customers have the primary responsibility when selling the goods and bear the risks of obsolescence and loss in relation to the goods. Trade receivable is recognised by the Group when the goods are delivered to customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The normal credit term is 60 days upon delivery.

In 2021, revenue from sales of pharmaceutical products was primarily related to two drugs approved by National Medical Products Administration of China.

License fee income

The Group provides license of its patented intellectual property ("IP") or commercialisation license to customers and revenue is recognised when the customers obtain rights to use of the underlying IP or license. License fee income is recognised at a point of time upon the customer obtains the right to use the IP and license.

The consideration for license comprises a fixed element (the upfront payment) and variable elements (including but not limited to development milestones, commercial milestone and royalties).

6. SEGMENT INFORMATION

The Group has been operating in one reportable segment, being the research and development of highly complex biopharmaceutical products, sale of pharmaceutical products and provide license of its IP or commercialisation license to customers. The Group's chief operating decision maker ("CODM") has been identified as the chief executive of the Group.

For the purpose of resource allocation and performance assessment, the CODM reviews the overall results and financial position of the Group prepared based on the same accounting policies as set out in note 3 as a whole.

Geographical information

Substantially, all of the Group's operation and non-current assets are located in the People's Republic of China (the "PRC"). The geographical information of the Group's revenue, determined based on geographical location of the registered office of the immediate customers, during the year is as follows:

Geographical markets

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
The PRC	**243,718**	4,717
United States of America	**–**	1,034,115
	243,718	1,038,832

Information about major customers

Revenue from the following customer contributed over 10% of the total sales of the Group:

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
Customer A	**158,941**	–
Customer B	**49,057**	–
Customer C	**31,897**	–
Customer D	**–**	1,034,115

7. OTHER INCOME AND OTHER GAINS AND LOSSES

Other income

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
Bank and other interest income	**9,803**	24,161
Government grants income *(note a)*	**35,970**	23,891
Income from pharmaceutical products *(note b)*	**–**	3,619
	45,773	51,671

Notes:

(a) Government grants include subsidies from the PRC government which are specifically for (i) the capital expenditure incurred for plant and machinery and is recognised over the useful life of the related assets; (ii) the incentive and subsidies for research and development activities which are recognised upon compliance with the attached conditions; and (iii) other government 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 recognised in profit or loss in the period in which they become receivable.

(b) Income from pharmaceutical products primarily relates to the sales contract with an independent medical institution located in Boao Hope City International Medical Tourism Pilot Zone in the PRC. It is recognised at the point in time when the medicine is delivered and accepted by the customer. The credit term is 40 days upon invoiced. The Group applies the practical expedient of not disclosing the transaction price allocated to performance obligations that were unsatisfied in respect of the sales contract as the Groups' contract has original duration of less than one year.

Other gains and losses

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
Net (loss) gain on fair value changes of financial assets measured at FVTPL *(note 19)*	**(64,214)**	396
Net gain on fair value changes of money market funds *(note 21)*	**10**	1,990
Net gain on disposal of debt instruments at FVTOCI	**–**	31
Net foreign exchange losses	**(69,130)**	(181,836)
Loss on disposal of property, plant and equipment	**(901)**	–
Others	**47**	–
	(134,188)	(179,419)

8. FINANCE COSTS

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
Interest on lease liabilities	**1,254**	241
Interest on bank borrowings	**3,871**	1,079
Total borrowing costs	**5,125**	1,320
Less: amounts capitalised in the cost of qualifying assets	**(2,883)**	–
	2,242	1,320

9. LOSS FOR THE YEAR

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
Loss for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	**5,611**	6,446
Depreciation of right-of-use assets	**11,300**	5,580
Amortisation of intangible assets	**5,750**	2,775
	22,661	14,801
Directors' emoluments *(note 10)*	**120,952**	164,101
Other staff costs:		
Salaries and other allowances	**262,297**	194,880
Performance related bonus	**75,904**	62,934
Retirement benefit scheme contributions	**49,745**	16,534
Share-based payment expenses	**109,393**	199,219
	497,339	473,567
	618,291	637,668
Auditor's remuneration	**1,620**	1,900
Write-down of inventories (included in cost of revenue)	**24,816**	–

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

Directors and chief executive

Details of the emoluments paid or payable by the entities comprising the Group to the directors and chief executive officer of the Company (including emoluments for services as employee/directors of the group entities prior to becoming the directors of the Company) for their services during the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, are as follows:

Year ended December 31, 2021

	Fee *RMB'000*	Salaries *RMB'000*	Performance related bonus *RMB'000*	Non-cash share-based payment expense *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Executive director:						
Jiang Frank Ningjun ("Dr. Jiang") *(note a)*	–	4,288	1,967	113,267	–	119,522
Non-executive directors:						
Zhao Qun *(note b)*	–	–	–	–	–	–
Li Wei	–	–	–	–	–	–
Chen Lianyong *(note d)*	–	–	–	–	–	–
Cao Yanling	–	–	–	–	–	–
Lin Xianghong *(note e)*	–	–	–	–	–	–
Kenneth Walton Hitchner III *(note f)*	258	–	–	11	–	269
Edward Hu *(note g)*	–	–	–	–	–	–
Independent non-executive directors:						
Chew Paul Herbert	258	–	–	–	–	258
Wu Ting Yuk Anthony	645	–	–	–	–	645
Sun Hongbin	258	–	–	–	–	258
	1,419	4,288	1,967	113,278	–	120,952

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Directors and chief executive (continued)

Year ended December 31, 2020

	Fee *RMB'000*	Salaries *RMB'000*	Performance related bonus *RMB'000*	Non-cash share-based payment expense *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Executive director:						
Dr. Jiang *(note a)*	–	4,077	1,967	156,804	12	162,860
Non-executive directors:						
Zhao Qun *(note b)*	–	–	–	–	–	–
Li Wei	–	–	–	–	–	–
Zhang Guobin *(note c)*	–	–	–	–	–	–
Chen Lianyong *(note d)*	–	–	–	–	–	–
Cao Yanling	–	–	–	–	–	–
Lin Xianghong *(note e)*	–	–	–	–	–	–
Independent non-executive directors:						
Chew Paul Herbert	276	–	–	–	–	276
Wu Ting Yuk Anthony	689	–	–	–	–	689
Sun Hongbin	276	–	–	–	–	276
	1,241	4,077	1,967	156,804	12	164,101

Notes:

a. Dr. Jiang is also the chief executive officer of the Company and his emolument disclosed above included those for services rendered by him as the chief executive officer.

b. Zhao Qun resigned as a non-executive director of the Company on December 10, 2021.

c. Zhang Guobin resigned as a non-executive director of the Company on November 30, 2020.

d. Chen Lianyong resigned as a non-executive director of the Company on July 9, 2021.

e. Lin Xianghong was appointed as a non-executive director of the Company on November 30, 2020.

f. Kenneth Walton Hitchner III was appointed as a non-executive director of the Company on December 10, 2021.

g. Edward Hu was appointed as a non-executive director of the Company on July 9, 2021.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Directors and chief executive (continued)

The executive director's emoluments shown above were for his services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were paid for their services as directors of the Company and its subsidiaries, if applicable.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There were no arrangements under which a director of the Company or the chief executive officer waived or agreed to waive any remuneration during both years.

During the years ended December 31, 2020 and 2021, except for the receivables due from a director as disclosure in note 18, there are no loans, quasi-loans or other dealings in favour of the directors of the Company, their controlled bodies corporate and connected entities.

There are no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of both years or at any time during the reporting periods.

During the years ended December 31, 2020 and 2021, no consideration was provided to or receivable by third parties for making available service of directors of the Company.

Employees

The five highest paid individuals of the Group included one (2020: one) director of the Company for the year ended December 31, 2021 with details of his emoluments set out above. The emoluments of the remaining four (2020: four) employees are as follows:

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
Salaries and other allowances	**9,990**	11,142
Performance related bonus	**5,940**	6,420
Retirement benefit scheme contributions	**85**	44
Total cash compensation	**16,015**	17,606
Non-cash share-based payment expenses	**65,903**	79,353
	81,918	96,959

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Employees (continued)

The emoluments (including share-based payment expenses) of the remaining employees fell within the following bands are as follows:

	Number of individuals	
Emolument bands (Hong Kong dollar ("HK$"))	**2021**	2020
12,000,001 to 12,500,000	**1**	N/A
19,000,001 to 19,500,000	**N/A**	1
20,000,001 to 20,500,000	**N/A**	1
22,500,001 to 23,000,000	**1**	N/A
24,500,001 to 25,000,000	**N/A**	1
31,000,001 to 31,500,000	**1**	N/A
33,500,001 to 34,000,000	**1**	N/A
50,500,001 to 51,000,000	**N/A**	1
	4	4

Performance related bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

Certain employees and director were granted share options or restricted share units in respect of their services to the Group. Details of the share-based payment transactions are set out in note 27.

No emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including one director of the Company and four employees) for both years as an inducement to join or upon joining the Group or as compensation for loss of office.

11. DIVIDENDS

No dividend was paid or declared by the Company during the year ended December 31, 2020 and 2021 nor has any dividend been proposed since the end of the reporting period.

12. INCOME TAX EXPENSE

The Company is tax exempt under the laws of the Cayman Islands.

Under the two-tiered profits tax rates regime in Hong Kong, the first HK$2 million of profits sourced in Hong Kong of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. No Hong Kong profit tax was provided as the Group has no assessable profit subject to Hong Kong profit tax for both years.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law, the statutory tax rate of the Company's PRC subsidiaries is 25% for both years.

Under the Treasury Law Amendment (Enterprise Tax Plan Base Rate Entities) Bill 2017 of Australia, corporate entities who qualify a small business entity are eligible for the lower corporate tax rate at 27.5%. CStone Pharmaceuticals Australia Pty, Ltd. ("CStone Australia") is qualified as small business entity and is subject to a corporate tax rate of 27.5% for both years.

Under the US Tax Cuts and Jobs Act, the US corporate income tax rate has charged at flat rate of 21%.

Singapore profits tax has been provided at the rate of 17% on the estimated assessable profits arising in Singapore for both years.

The tax charge for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
Loss before tax	**(1,920,100)**	(1,220,999)
Tax charge at the PRC EIT rate of 25%	**(480,025)**	(305,249)
Tax effect of expenses not deductible for tax purpose	**206,855**	53,741
Effect of research and development expenses that are additionally deducted *(note)*	**(147,636)**	(141,467)
Tax effect of tax losses not recognised	**416,402**	393,088
Tax effect of temporary difference not recognised	**6,204**	–
Utilisation of deductible temporary differences previously not recognised	**(1,803)**	(113)
Tax charge for the year	**–**	–

Note: Pursuant to Caishui [2018] circular No. 99, CStone Suzhou enjoyed super deduction of 175% on qualifying research and development expenditures for both years.

At December 31, 2021, the Group has unused tax losses of approximately RMB5,792,037,000 (2020: RMB4,149,230,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

12. INCOME TAX EXPENSE (continued)

The unused tax losses will be expired as follows:

	2021 *RMB'000*	2020 *RMB'000*
2021	–	22,801
2022	**329,104**	329,104
2023	**767,741**	767,741
2024	**1,391,747**	1,391,747
2025	**1,527,199**	1,527,199
2026	**1,517,816**	–
Indefinite *(note)*	**258,430**	110,638
	5,792,037	4,149,230

Note: At December 31, 2021, tax losses of RMB22,000,000 (2020: RMB45,154,000) is subjected to confirmation by the Australian tax authorities.

At December 31, 2021, the Group has deductible temporary differences of RMB33,514,000 (2020 RMB15,908,000), mainly arising from the write-down of inventories and deferred government grants income. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year is as follows:

	For the year ended December 31,	
	2021	2020
Loss (RMB'000)		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**(1,920,100)**	(1,220,999)
Number of shares ('000)		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,165,209**	1,046,032

The calculation of basic and diluted loss per share for both years has considered the restricted share units that have been vested but not yet registered (note 27) but excluded the treasury shares held in trust of the Company (note 26).

Diluted loss per share for both years did not assume the exercise of share options awarded under the employee stock option (note 27(a)), and the unvested restricted share units (note 27(b)) as their inclusion would be anti-dilutive.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST					
At January 1, 2020	11,199	7,002	5,612	2,464	26,277
Additions	454	2,783	1,174	27,217	31,628
Transfers	8,198	–	–	(8,198)	–
At December 31, 2020	19,851	9,785	6,786	21,483	57,905
Additions	1,747	90	2,284	117,190	121,311
Disposals	(1,286)	–	–	–	(1,286)
At December 31, 2021	20,312	9,875	9,070	138,673	177,930
DEPRECIATION					
At January 1, 2020	7,497	2,122	2,473	–	12,092
Provided for the year	3,270	1,467	1,709	–	6,446
At December 31, 2020	10,767	3,589	4,182	–	18,538
Provided for the year	2,644	1,774	1,193	–	5,611
Eliminated on disposals	(385)	–	–	–	(385)
At December 31, 2021	13,026	5,363	5,375	–	23,764
CARRYING VALUES					
At December 31, 2021	7,286	4,512	3,695	138,673	154,166
At December 31, 2020	9,084	6,196	2,604	21,483	39,367

The above items of property, plant and equipment, except for construction in progress, after taking into account the residual values, if any, are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Shorter of the lease term or 33.3%
Plant and machinery	18%
Furniture, fixtures and equipment	30%

15. RIGHT-OF-USE ASSETS

	Office Premises *RMB'000*	Equipment and vehicles *RMB'000*	Total *RMB'000*
Carrying Amounts			
At January 1, 2020	4,378	91	4,469
Additions	27,930	356	28,286
Depreciation charge for the year	(5,329)	(251)	(5,580)
As at December 31, 2020	26,979	196	27,175
Additions	12,756	–	12,756
Depreciation charge for the year	(11,104)	(196)	(11,300)
At December 31, 2021	28,631	–	28,631

	For the year ended December 31,	
	2021 *RMB'000*	2020 *RMB'000*
Expense relating to short-term leases	**2,981**	2,761
Expense relating to leases of low-value assets, excluding short-term leases of low value assets	**350**	271
Total cash outflow for leases	**16,028**	8,654

For both years, the Group leases various office premises, equipment and vehicles for its operations. Lease contracts are entered into for fixed term of 6 months to 37 months (2020: 6 months to 36 months). 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 office premises and vehicles. As at December 31, 2020 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

During the year ended December 31, 20201, the Group entered into new leases with lease liabilities amounted to RMB12,623,000 (2020: RMB27,894,000) which were non-cash transactions of the Group.

Restrictions or covenants on leases

In addition, lease liabilities of RMB27,687,000 are recognised with related right-of-use assets of RMB28,631,000 at December 31, 2021 (2020: lease liabilities of RMB26,857,000 and related right-of-use assets of RMB27,175,000). 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.

16. INTANGIBLE ASSETS

	Computer software *RMB'000*	In-licenses *RMB'000*	Total *RMB'000*
At January 1, 2020	1,771	–	1,771
Additions	7,979	–	7,979
At December 31, 2020	9,750	–	9,750
Additions *(note)*	84	69,696	69,780
At December 31, 2021	9,834	69,696	79,530
AMORTISATION			
At January 1, 2020	466	–	466
Provided for the year	2,775	–	2,775
At December 31, 2020	3,241	–	3,241
Provided for the year	2,601	3,149	5,750
At December 31, 2021	5,842	3,149	8,991
CARRYING VALUES			
At December 31, 2021	3,992	66,547	70,539
At December 31, 2020	6,509	–	6,509

The above intangible assets have finite useful lives and are amortised on a straight-line basis as follows:

Computer software	10% – 33% per annum
In-license	7% – 8% per annum

Note:

During the year ended December 31, 2021, the Group capitalised milestone payments from the license in arrangements with third-party partners amounted to RMB69,696,000 (2020: nil).

17. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**117,598**	–

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables presented based on invoice dates at the end of the reporting period:

	2021 RMB'000	2020 RMB'000
0 – 60 days	**117,598**	–

At December 31, 2021, there are no trade receivables balances are past due. Details of impairment assessment of trade receivables are set out in note 32b.

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Rental deposits	**4,466**	4,250
Prepayments	**6,446**	63,617
Receivables from a director of the Company and key management personnel *(note a)*	**23,309**	105,288
Value-added tax recoverable	**47,867**	78,744
Others	**22,415**	8,128
	104,503	260,027
Analysed as:		
Non-current	**52,158**	81,987
Current	**52,345**	178,040
	104,503	260,027

Note:

(a) At December 31, 2020, the balance mainly represented the amounts due from a director of the Company and several key management personnel in respect of withholding tax for employee's individual income tax associated with vested restricted share units. During the year ended December 31, 2020, RMB71,858,000 were accounted for as deduction from equity for shares withheld which permit the Company to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon vesting of the share awards according to the modification of Pre-IPO Incentivisation Plan in January 2020. The receivables from directors of the Company and key management personnel were unsecured, interest-free and repayable on demand. During the year ended December 31, 2021, the maximum outstanding balance of amount due from Dr. Jiang is RMB20,017,000 (2020: RMB3,504,000). The receivables due from Dr. Jiang at December 31, 2021 amounted to RMB20,017,000 is fully settled on January 31, 2022.

19. FINANCIAL ASSETS MEASURED AT FVTPL

	2021 *RMB'000*	2020 *RMB'000*
Investment in fund linked note *(note a)*	**122,895**	–
Convertible note *(note b)*	**3,188**	–
Wealth management plan *(note c)*	**–**	10,125
	126,083	10,125
Analysed for reporting purposes as:		
Current assets	**122,895**	10,125
Non-current assets	**3,188**	–
	126,083	10,125

Notes:

(a) In July 2021, the Group invested in a fund linked note issued by a financial institution (the "Investment") for a settlement amount of HK$232,830,000 (equivalent to RMB193,838,000). After deduction of subscription fee and other expenses of HK$5,090,000 (equivalent to RMB4,238,000) recognised in administrative expenses, the subscription amount of the Investment amounted to HK$227,740,000 (equivalent to RMB189,154,000). On November 18, 2021, the Group early rollover of the Investment with a new maturity date to October 31, 2022.

The Investment is non-cash equivalent and non-principal protected whose return is linked to the investment in the class A shares of a segregated portfolio held under a segregated portfolio company registered in the Cayman Islands (the "Fund"). The Fund invested in portfolio of (1) shares and options of companies listed on the exchange in Mainland China, Hong Kong and the United States of America, (2) a private equity and (3) cash and other current assets. The class A shares of the Fund has a higher seniority of the principal balance upon redemption over the class C shares of the Fund.

For the year ended December 31, 2021, the Group recognised loss on fair value changes arising from the Investment amounted to RMB64,214,000 and was included in other gains and losses as disclosed in note 7.

Subsequent to the end of the reporting period, the directors have approved early redemption request of the Investment to the financial institution. The early redemption of the Investment is not yet completed up to the date of issuance of the consolidated financial statements.

(b) In November 2021, the Group subscribed a convertible note at a cash consideration of USD500,000 (equivalent to RMB3,188,000) issued by a unlisted entity. The convertible note carried at a fixed coupon rate of 5% per annum and will be repaid on demand. In the event that the unlisted entity issues and sells equity of the entity (the "Qualified Financing") to investors, the outstanding principal and all accrued interest thereon shall automatically convert into ordinary shares by a conversion price equal to eighty percent (80%) of the price paid by investors in the Qualified Financing. Otherwise the convertible note is automatically convertible into ordinary shares of the entity at a conversion price equal to the quotient of USD10,000,000 divided by the aggregate number of outstanding ordinary shares of the unlisted entity as of the scheduled maturity date (assuming full conversion or exercise of all convertible and exercisable securities then outstanding other than the convertible note).

The convertible note could only be executed at the maturity date which is 3 years after the acquisition date with no early redemption right. The Group intends to hold the convertible note to either Qualified Financing or maturity; therefore, the convertible note is classified as non-current assets.

(c) The Group entered into contracts in respect of wealth management plan managed by financial institutions. The principal was unguaranteed by the relevant financial institutions while the expected return rates stated in the contracts was 3.6% per annum as at December 31, 2020. During the year ended December 31, 2021, the Group disposed all the wealth management plan investment.

20. INVENTORIES

	2021 RMB'000	2020 RMB'000
Finished goods	**61,363**	–

21. TIME DEPOSITS AND CASH AND CASH EQUIVALENTS

Time deposits with original maturity over three months

The Group held time deposits of USD135,000,000 (equivalent to RMB860,720,000) (2020: USD550,000 (equivalent to RMB358,870,000)) at December 31, 2021, with original maturity of more than 3 months which carried effective interest rates ranging from 0.40%-0.50% (2020: 1.50%) per annum. These time deposits will mature within 12 months.

Cash and cash equivalents

	2021 RMB'000	2020 RMB'000
Cash at banks	**440,046**	2,084,307
Cash on hand	**190**	–
Cash equivalents		
– Money market funds *(note)*	**11,217**	204,885
– Time deposits with original maturity less than three months	**291,271**	735,356
	742,724	3,024,548

Note: Amount represents investments in a public debt constant net asset value money market fund and low volatility net asset value money market fund.

21. TIME DEPOSITS AND CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents (continued)

Time deposits with original maturity less than three months and cash at banks carry interests at market rates per annum ranging as follows:

	2021	2020
Time deposits	**0.36% – 2.10%**	0.91% – 3.30%
Cash at banks	**0.00% – 0.50%**	0.00% – 0.30%

The Group's time deposits and cash and cash equivalents denominated in currencies other than functional currencies of the relevant group entities at the end of the reporting period are as follows:

	2021 *RMB'000*	2020 *RMB'000*
USD	**1,332,858**	3,147,325
HK$	**3,234**	207,700

22. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	2021 *RMB'000*	2020 *RMB'000*
Trade payables	**33,024**	28,030
Accrued expenses		
– Research and development (note a)	**591,401**	460,384
– Legal and professional fees	**4,113**	4,815
– Royalties expenses	**29,194**	–
– Selling and marketing expenses	**26,177**	–
– Others	**61,765**	26,194
Other tax payable (note b)	**24,288**	102,938
Staff payroll payable	**77,951**	59,796
Other payables	**33,636**	26,368
	881,549	708,525

Notes:

(a) Amounts mainly included accrued service fees to outsourced service providers including contract research organisations and outsourced service providers.

(b) At December 31, 2021, amounts represented withholding tax payable of RMB23,880,000 (2020: 96,845,000) for employee's individual income tax associated with vested restricted share units which were fully cash-settled in January 2022.

22. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES (continued)

The credit period on trade payables is 0 to 90 days. Ageing analysis of the Group's trade payables based on invoice dates at the end of the reporting period is as follows:

	2021 *RMB'000*	2020 *RMB'000*
0 – 30 days	**32,514**	28,030
31 – 60 days	**510**	–
	33,024	28,030

23. BANK BORROWINGS

	2021 *RMB'000*	2020 *RMB'000*
Unsecured and unguaranteed *(note a)*	**22,933**	17,680
Secured and unguaranteed *(note b)*	**123,578**	39,322
	146,511	57,002
The carrying amounts of the above bank borrowing are repayable*:		
Within 1 year	**30,700**	2,662
Within a period of more than 1 year but not exceeding 2 years	**7,767**	1,877
Within a period of more than 2 years but not exceeding 5 years	**108,044**	52,463
	146,511	57,002
Less: Amount due within 12 months shown under current liabilities	**(30,700)**	(2,662)
Amount show under non-current liabilities	**115,811**	54,340

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Notes:

a. In 2020, the Group obtained a banking facilities of RMB25,000,000 for the purpose of working capital. At December 31, 2021, the Group drawn down RMB22,933,000 (2020: RMB17,680,0000) which the bank borrowing is unsecured, unguaranteed and carried at variable interest rate (also being the effective interest rate) at Loan Prime Rate ("LPR") plus 10 basis points per annum.

b. In 2020, the Group obtained a banking facilities of RMB175,000,000 for the purpose of the construction of the Group's facilities in CStone Suzhou Translational Medicine Research Center. At December 31, 2021, the Group drawn down RMB123,578,000 (2020: RMB39,322,0000), unguaranteed and carried at variable interest rate (also being the effective interest rate) at LPR plus 10 basis points per annum. Such bank borrowing will be secured by CStone Suzhou Translational Medicine Research Center's facilities upon its construction completion.

24. DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
Government subsidies received related to acquisition of property, plant and equipment *(note a)*	**1,698**	2,148
Other subsidies *(note b)*	**7,000**	13,760
	8,698	15,908
Analysed as:		
Non-current	**1,247**	8,698
Current	**7,451**	7,210
	8,698	15,908

Notes:

(a) The Group received government subsidies for capital expenditure incurred for the plant, machineries and spare parts in prior year. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

(b) In 2020, the Group received government subsidies of RMB1,080,000 (2021: nil) towards research and development projects. Certain conditions have to be fulfilled until these subsidies can be regarded as fully granted. At December 31, 2020 and 2021, the relevant conditions have not been fully fulfilled and therefore, the government subsidies were deferred.

25. LEASE LIABILITIES

	2021 RMB'000	2020 RMB'000
Lease liabilities payable:		
Within one year	**13,248**	8,652
Within a period of more than 1 year but not exceeding 2 years	**11,539**	8,922
Within a period of more than 2 years but not exceeding 5 years	**2,900**	9,283
	27,687	26,857
Less: Amounts due for settlement within 12 months shown under current liabilities	**(13,248)**	(8,652)
Amounts due for settlement after 12 months shown under non-current liabilities	**14,439**	18,205

The weighted average incremental borrowing rates applied to lease liabilities is 5.34% per annum for the year ended December 31, 2020 and 2021.

26. SHARE CAPITAL/TREASURY SHARES HELD IN THE TRUSTS

	Number of shares	Share capital *US$'000*
Ordinary shares		
Ordinary shares of USD0.0001 each		
Authorised		
As January 1, 2020, and December 31, 2020 and 2021	2,000,000,000	200

	Number of shares	Amount *USD'000*	Equivalent amount of ordinary shares *RMB'000*
Issued and fully paid			
At January 1, 2020	1,028,074,790	102	687
Exercise of share options *(note a)*	7,432,827	1	5
Subscription of new shares by Pfizer Corporation Hong Kong Limited *(note b)*	115,928,803	12	79
Repurchase of shares *(note c)*	(3,025,500)	–	(2)
Issuance of shares to a trust *(note d)*	25,650,386	3	18
At December 31, 2020	1,174,061,306	118	787
Exercise of share options *(note e)*	8,788,150	2	6
Issuance of shares to a trust *(note f)*	4,273,870	–	3
At December 31, 2021	1,187,123,326	120	796

Treasury shares:

	Number of shares	Amount *USD'000*	Equivalent amount of treasury shares *RMB'000*
At January 1, 2020	–	–	–
Repurchase of ordinary shares	3,025,500	–	2
Cancellation of ordinary shares	(3,025,500)	–	(2)
At December 31, 2020 and 2021	–	–	–

26. SHARE CAPITAL/TREASURY SHARES HELD IN THE TRUSTS (continued)

Treasury shares held in trusts:

	Number of treasury shares	US$ *USD'000*	Equivalent amount of treasury shares *RMB'000*
At January 1, 2020	43,542,018	4	30
Issuance of shares to a trust *(note d)*	25,650,386	3	18
Restricted stock units exercised under the trust *(note g)*	(42,488,116)	(4)	(29)
At December 31, 2020	26,704,288	3	19
Issuance of shares to a trust *(note f)*	4,273,870	–	3
Restricted stock units exercised under the trust *(note g)*	(16,394,081)	(2)	(11)
At December 31, 2021	14,584,077	1	11

As of December 31, 2021, shares are held in trusts including 7,470,071 (2020: 11,738,200) shares for outstanding options and 7,114,006 (2020: 14,966,088) shares for unexercised restricted stock units and disclosed as treasury shares since the Company has control over these trusts.

Notes:

(a) During the year ended December 31, 2020, share option holders exercised their rights to subscribe for 2,235,061, 2,511,942, 2,359,438 and 326,386 ordinary shares in the Company at HK$0.20, HK$0.39, HK$1.12 and HK$4.65 per share, respectively. The shares allotted and issued rank pari passu in all respects with the then existing issued shares of the Company.

(b) On October 9, 2020, the Company entered into a share subscription agreement with Pfizer Corporation Hong Kong Limited, pursuant to which Pfizer Corporation Hong Kong Limited has subscribed for 115,928,803 ordinary shares of the Company with USD0.0001 par share at the subscription price of HK$13.37 per share.

(c) During the year ended December 31, 2020, 3,025,500 ordinary shares of the Company were repurchased at prices ranging from HK$7.05 to HK$9.00 per share, which have been cancelled subsequently.

(d) On July 23, 2020 and August 19, 2020, the Company issued 16,542,291 and 9,108,095 ordinary shares to the Computershare Hong Kong Trustees Limited (the "Computershare Trustees") to satisfy the pre-IPO share options and share awards granted under the Pre-IPO Share Incentivisation Plan.

(e) During the year ended December 31, 2021, pre-IPO share option holders exercised their rights to subscribe for 945,606, 4,127,642, 1,761,449 and 477,886 ordinary shares in the Company at HK$0.20, HK$0.39, HK$1.12 and HK$4.65 per share, respectively. The shares allotted and issued rank pari passu in all respects with the then existing issued shares of the Company.

During the year ended December 31, 2021, post-IPO share option holders exercised their rights to subscribe for 1,065,264, 11,250, 97,831, 35,000, 233,506, 12,841 and 19,875 ordinary shares in the Company at HK$8.50, HK$9.96, HK$10.79, HK$11.05, HK$12.20, HK$12.60 and HK$15.86 per share, respectively. The shares allotted and issued rank pari passu in all respects with the then existing issued shares of the Company.

26. SHARE CAPITAL/TREASURY SHARES HELD IN THE TRUSTS (continued)

Notes: (continued)

(f) On July 11, 2019, the Company and the Computershare Trustees, an independent third party, set up the 2019 CStone Share Incentivisation Trust for Non-Connected Persons which entered into a trust deed pursuant to which the Computershare Trustee has agreed to act as the trustee to administer the Pre-IPO Incentivisation Plan (as defined in note 28(a)) and to hold the ordinary shares under the Pre-IPO Incentivisation Plan through the Computershare Trustee. 14,238,552 ordinary shares was issued to the Computershare Trustee to set aside a pool of ordinary shares to satisfy Pre-IPO restricted share units granted under the Pre-IPO Share Incentivisation Plan. The Shares held in the trust are accounted for as treasury shares of the Company.

On April 29, 2021 and December 20, 2021, the Company issued 3,018,004 and 1,255,866 ordinary shares to the Computershare Trustees to satisfy the pre-IPO share options and share awards granted under the Pre-IPO Share Incentivisation Plan, respectively.

(g) During the year ended December 31, 2021, 16,394,081 (2019: 42,488,116) restricted stock units granted to several employees were exercised.

27. SHARE-BASED PAYMENT TRANSACTIONS

(a) Employee stock option plan ("ESOP")

The Pre-IPO ESOP

During the year ended December 31, 2016, the Group granted share options under its employee stock option plan (the "Pre-IPO ESOP") for the purpose of incentivising, retaining and rewarding certain employees and board members of the Company or its subsidiaries ("Eligible Persons") for their contributions to the Group's business, and to align their interests with those of the Group.

The directors of the Company adopted and approved such Pre-IPO ESOP on July 7, 2017, with the intent at that time that the directors of the Company delegated full authority to Dr. Jiang, the executive director of the Company, to grant option awards in accordance with the Pre-IPO ESOP before Pre-IPO ESOP was approved and adopted by the directors of the Company. The overall limit on the number of underlying shares which may be delivered under the plan was 24,010,293 shares of the Company, subject to any adjustments for other dilutive issuances.

Except as provided otherwise in the grant letter or offer in any other form by the directors of the Company, the vesting schedule of the share options shall be a sixty months vesting schedule consisting of a cliff vesting of twenty percent after twelve months from the vesting commencement date and, thereafter, monthly vesting of equal instalments over the remaining forty-eight months.

On August 3, 2018, the board of directors of the Company resolved to adopt and approved the amended and restated employee equity plan (the "Pre-IPO Incentivisation Plan") for the purpose of granting restricted share units and other equity incentive permitted by the Pre-IPO Incentivisation Plan to the employees, directors of the Company, consultants and advisors of the Company. Further on August 14, 2018, the board of directors of the Company resolved the change of vesting schedule and updated the outstanding options and restricted shares units with the new vesting schedule under the Pre-IPO Incentivisation Plan, whereas 25% of the shares will be vested on the first anniversary of the original vesting commencement date, and the remaining shares will be vested with equal monthly instalments over the following thirty-six months.

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Employee stock option plan ("ESOP") (continued)

***The Pre-IPO ESOP** (continued)*

The share options and the restricted share units shall be restricted to the eligible employees, directors of the Company, consultants and advisors of the Company and shall not be assignable to other person. No eligible employee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any share option and restricted share units or attempt to do so.

The overall limit on the number of underlying shares which may be delivered under the Pre-IPO Incentivisation Plan for both employees stock option plan and the restricted shares units is 130,831,252 shares of the Company.

The following table discloses movements of the Company's share options held by grantees during the year:

	Number of Pre-IPO ESOP share options			
	Dr. Jiang		Employees	
	2021	2020	**2021**	2020
Outstanding at January 1,	**8,633,336**	8,633,336	**15,958,989**	26,579,418
Forfeited	**–**	–	**(1,090,145)**	(3,187,602)
Exercised	**(80,000)**	–	**(7,232,583)**	(7,432,827)
Outstanding at December 31,	**8,553,336**	8,633,336	**7,636,261**	15,958,989

At December 31, 2021, 2,644,131 outstanding Pre-IPO ESOP share options (2020: 4,144,610) were exercisable.

The following table discloses the weighted average exercise price of the Company's share options held by grantees during the year:

	Weighted average exercise price			
	Dr. Jiang		Employees	
	2021 ***USD***	2020 *USD*	**2021** ***USD***	2020 *USD*
Forfeited during the year	**–**	–	**0.13**	0.09
Exercised during the year	**0.20**	–	**0.11**	0.10

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Employee stock option plan ("ESOP") (continued)

The Pre-IPO ESOP *(continued)*

Fair value of share options granted

Back-solve method was used to determine the underlying equity fair value of the Company and Option Pricing Model ("OPM model") was used to determine the fair value of the option granted. Key assumptions, such as risk-free interest rate and volatility, are required to be determined by the directors of the Company with best estimate.

For the year ended December 31, 2021, the total expenses recognised in the consolidated statement of profit or loss and other comprehensive income for the Pre-IPO ESOP share options granted to a director of the Company and employees are approximately RMB9,230,000 (2020: RMB18,394,000).

The Post-IPO ESOP

Pursuant to a resolution passed on January 30, 2019, the directors of the Company further adopted an employee equity plan (the "Post-IPO ESOP") to grant option awards to any employee, officer, director, contractor, advisor or consultant of the Group by reason of his or her contribution to the Group. The Post-IPO ESOP shall be valid and effective for a period of ten years commencing on February 26, 2019 ("the Listing Date"). Options granted must be taken up within the period specified in the letter containing the offer of the grant of the options. The total number of shares in respect of share options may be granted under the Post-IPO ESOP is not permitted to exceed 10% of the shares of the Company in issue immediately after completion of the IPO and as at the Listing Date (i.e. 98,405,153 shares), without prior approval from the shareholders of the Company.

Unless otherwise approved by the directors of the Company and set forth in an offer letter, the vesting schedule should be forty-eight months consisting of a cliff vesting of twenty five percent on the first anniversary of the vesting commencement date and, thereafter, monthly vesting of equal instalments over the following thirty-six months, provided that the grantee continues to be an eligible employee (as described under the Post-IPO ESOP) as of each such vesting date.

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Employee stock option plan ("ESOP") (continued)

***The Post-IPO ESOP** (continued)*

The table below discloses movements of the Post-IPO ESOP share options held by grantees during the year:

	Number of Post-IPO ESOP share options			
	Dr. Jiang		Employees	
	2021	2020	**2021**	2020
At January 1,	**36,432,379**	–	**23,262,412**	11,209,500
Granted during the year	**–**	40,480,421	**19,784,136**	13,743,500
Forfeited during the year	**–**	–	**(8,449,643)**	(1,690,588)
Lapsed during the year	**–**	(4,048,042)	**–**	–
Exercised during the year	**–**	–	**(1,475,567)**	–
At December 31,	**36,432,379**	36,432,379	**33,121,338**	23,262,412

At December 31, 2021, 9,515,704 (2020: 3,133,667) outstanding Post-IPO ESOP share options were exercisable.

	Weighted average price			
	Dr. Jiang		Employees	
	2021 ***HKD***	2020 *HKD*	**2021** ***HKD***	2020 *HKD*
Granted during the year	**–**	10.69	**11.32**	9.43
Forfeited during the year	**–**	–	**9.82**	10.70
Lapsed during the year	**–**	10.69	**–**	–
Exercised during the year	**–**	–	**9.70**	–

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Employee stock option plan ("ESOP") (continued)

The Post-IPO ESOP *(continued)*

Fair value of share options granted

OPM Model was used to determine the fair value of the Post-IPO ESOP share options granted. Key assumptions, such as risk-free interest rate and volatility, are required to be determined by the directors of the Company with best estimate.

The key inputs into the model for the grants during the year ended December 31, 2021 and 2020 were as follows:

	2021	2020
Grant date option fair value per share	**HK$4.77 – HK$9.14**	HK$4.58 – HK$5.60
Exercise price	**HK$9.59 – HK$17.31**	HK$8.85 – HK$11.05
Expected volatility	**68.95% – 70.25%**	62.50% – 67.80%
Expected life	**10 years**	10 years
Risk-free rate	**1.20% – 1.49%**	0.58% – 0.73%
Expected dividend yield	**0%**	0%

During the year ended December 31, 2021, the Group has granted 11,653,800, 4,055,000, and 4,075,336 Post-IPO ESOP share options in April 2021, July 2021 and December 2021, respectively.

During the year ended December 31, 2021, the weighted average fair value of the Post-IPO ESOP options granted is HK$5.33 per share.

The directors of the Company estimated the risk-free interest rate based on the yield of the Hong Kong Government Bonds with a maturity life close to the option life of the Post-IPO ESOP share option. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share options. Dividend yield is based on management estimation at the grant date.

For the year ended December 31, 2021, the total expenses recognised in the consolidated statements of profit or loss and other comprehensive income for the Post-IPO ESOP share options granted to a director of the Company and employees are approximately RMB115,817,000 (2020: RMB125,409,000).

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Restricted share units ("RSUs")

The Pre-IPO RSU Plan

On August 3, 2018, December 6, 2018 and January 16, 2019, 8,467,541, 1,500,000 and 8,112,124 RSUs of the Company were granted at nil consideration to the grantees by the directors of the Company in accordance with Pre-IPO Incentivisation Plan respectively.

On August 14, 2018, the directors of the Company resolved and approved the vesting schedule of the RSU with 25% of the shares to be vested on the first anniversary of the vesting commencement date, and the remaining shares to be vested with equal monthly instalments over the following thirty-six months.

The aforesaid arrangement has been accounted for as share-based payment transactions. Accordingly, the Group measured the fair value of the restricted shares units as of the grant date and recognised the amount as compensation expenses over the vesting period for each separate vesting portion of the RSUs. The total expense recognised in the consolidated statement of profit or loss and other comprehensive income for RSUs granted to a director of the Company and employees are approximately RMB57,641,000 (2020: RMB108,100,000) for the year ended December 31, 2021.

The RSUs were valued by the directors of the Company with reference to the valuation carried out by an independent qualified professional valuer, on the grant respective dates of the RSUs. The weighted average fair value of the Pre-IPO RSU share awards granted is USD1.22 per share.

The following table summarised the Group's Pre-IPO RSUs movement during the years:

	Number of RSU			
	Dr. Jiang		Employees	
	2021	2020	**2021**	2020
Outstanding at January 1,	**10,855,168**	37,805,736	**15,943,053**	25,127,622
Forfeited during the year	**–**	–	**(7,339,710)**	–
Exercised during the year*	**(5,210,472)**	(26,950,568)	**(6,226,485)**	(9,184,569)
Outstanding at December 31,	**5,644,696**	10,855,168	**2,376,858**	15,943,053

* Exercised means vested and registered

At December 31, 2021, the outstanding amount of the Group's Pre-IPO RSU included 2,103,504 (2020: 2,103,504) Pre-IPO RSUs have been vested but not yet registered and 5,918,050 (2020: 24,694,717) Pre-IPO RSUs remained unvested.

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Restricted share units ("RSUs") (continued)

The Pre-IPO RSU Plan *(continued)*

Fair value of RSUs granted

Back-solve method was used to determine the underlying equity fair values of the Company and OPM model to determine the fair value of the RSUs granted. Key assumptions, such as years to liquidity event, risk-free interest rate and volatility, are required to be determined by the directors of the Company with best estimate.

The Post-IPO RSU Plan

A restricted share award scheme (the "Post-IPO RSU Plan") was approved and adopted pursuant to a resolution passed on March 22, 2019. The directors of the Company may, from time to time, at its absolute discretion grant RSUs to an eligible person in accordance with the Post-IPO RSU Plan. The overall limit on the number of RSUs under the Post-IPO RSU Plan is 7,650,000 shares and the maximum number of shares which may be awarded to any eligible person under the Post-IPO RSU Plan shall not exceed 1% of the issued share capital of the Company as at March 22, 2019.

On January 31, 2020, an amendment to the Post-IPO RSU Plan was approved and adopted to increased maximum total number of RSUs, pursuant to which the maximum total number of RSUs that may be granted under the Post-IPO RSU Plan in aggregate (excluding the RSUs that have lapsed or been cancelled in accordance with the rules of the Plan) was increased from 7,650,000 shares to 38,010,316 shares, representing approximately 3.70% of the issued share capital of the Company as at January 31, 2020.

The vesting of the Post-IPO RSUs granted is subject to the eligible person remaining at all times after the date of granting and on the vesting date an eligible person of the Post-IPO RSU Plan. RSUs granted under the Post-IPO RSU Plan shall have a contractual term of 10 years and generally vest over a four year period, with 25% of total RSUs vesting on the anniversary date one year after the vesting commencement date and the remaining 75% vesting subsequently in 36 equal monthly instalments or with 25%, 25%, 25% and 25% of total RSUs vesting on the first, second, third and fourth anniversary date one year after the vesting commencement date.

The grantee may not have any interest or right in the RSUs granted until such Post-IPO RSUs have been vested.

The RSUs granted to the eligible person under the Post-IPO RSU Plan shall be restricted to eligible person only and shall not be assignable to other person. No eligible person may in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to the award. The Post-IPO RSU Plan will be expired on March 23, 2029.

The total expense recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2021 for the Post-IPO RSU granted is RMB39,983,000 (2020: RMB104,120,000).

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Restricted share units ("RSUs") (continued)

***The Post-IPO RSU Plan** (continued)*

The following table summarised the Group's Post-IPO RSUs and movement during the year:

	Number of Post-IPO RSUs			
	Dr. Jiang		Employees	
	2021	2020	**2021**	2020
At January 1,	**8,912,360**	10,120,105	**13,168,354**	15,065,457
Granted during the year	**–**	1,000,000	**6,915,065**	4,759,800
Forfeited during the year	**–**	–	**–**	(1,499,659)
Lapsed during the year	**–**	(1,012,010)	**(5,304,408)**	–
Exercised during the year*	**(1,344,044)**	(1,195,735)	**(3,613,080)**	(5,157,244)
At December 31,	**7,568,316**	8,912,360	**11,165,931**	13,168,354

* Exercised means vested and registered

At December 31, 2021, the outstanding amount of the Group's Post-IPO RSU included 1,667,836 (2020: 1,641,214) Post-IPO RSUs have been vested but not yet registered and 17,066,411 (2020: 20,439,500) Post-IPO RSUs remained unvested.

The fair value of the Post-IPO RSUs is measured on the basis of an observable market price as at grant date.

28. CAPITAL COMMITMENTS

The Group had capital commitments under non-cancellable contracts as follows:

	2021	2020
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the consolidated financial statements:		
Acquisition of intangible assets and property, plant and equipment	**34,690**	82,269

29. RETIREMENT BENEFIT PLANS

The PRC

The employees of the Company's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are approximately RMB49,745,000 (2020: RMB16,546,000) for the year ended December 31, 2021.

30. RELATED PARTY DISCLOSURES

Except as disclosed elsewhere in the consolidated financial statements, the Group also entered into the following transactions during the year with certain related parties.

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management were as follows:

	2021	2020
	RMB'000	*RMB'000*
Short term benefits	**27,623**	31,789
Retirement benefit scheme contributions	**253**	149
Total cash compensation	**27,876**	31,938
Non-cash share-based payment expense	**181,072**	261,435
	208,948	293,373

The remuneration of key management personnel is determined by the directors of the Company having regard to the performance of individuals and market trends.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its stakeholders and maintaining an adequate capital structure. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents, time deposits and equity attributable to owners of the Company, comprising issued ordinary share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of the capital. The Group will balance its overall capital structure through the new shares issues as well as the issue of new debt.

32. FINANCIAL INSTRUMENTS

32a Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets		
Amortised cost	**1,760,015**	3,296,919
Cash equivalents at FVTPL	**11,217**	204,885
Financial assets measured at FVTPL	**126,083**	10,125
Financial liabilities		
Amortised cost	**213,171**	111,400

32b Financial risk management objectives and policies

The Group's financial instruments include trade receivables, deposits and other receivables, financial assets measured at FVTPL, restricted bank deposit, time deposits with original maturity over three months, cash and cash equivalents, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in the respective notes.

The risks associated with the Group's financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain time deposits, cash and cash equivalents, financial assets at FVTPL, trade and other receivables and trade and other payables are denominated in foreign currencies of the respective group entities which are exposed to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging of significant foreign currency exposure should the need arise.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are as follows:

	Assets		Liabilities	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
US$	**1,342,702**	3,190,281	**159,742**	207,900
HK$	**152,856**	210,037	**1,351**	743
AUD$	**3,642**	6,348	**16,949**	32,985
Schweizer Franken ("CHF")	**–**	–	**18,544**	23,637

32. FINANCIAL INSTRUMENTS (continued)

32b Financial risk management objectives and policies (continued)

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates increase (decrease) in post-tax loss where RMB strengthens 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss.

	2021 ***RMB'000***	2020 *RMB'000*
US$	**59,148**	149,119
HK$	**7,575**	10,465
AUD$	**(665)**	(1,332)
CHF	**(927)**	(1,182)

The directors of the Company considered the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to time deposits and fixed-rate lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to cash at banks (note 21) and bank borrowings (note 23). The Group currently does not enter into any hedging instrument for fair value or cash flow interest rate risk.

32. FINANCIAL INSTRUMENTS (continued)

32b Financial risk management objectives and policies (continued)

Market risk *(continued)*

(ii) Interest rate risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2020: 50 basis point) increase or decrease in variable-rate bank borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rate had been 50 basis points higher/lower as at December 31, 2021 and all other variables were held constant, the Group's loss for the year ended December 31, 2021 would decrease by RMB733,000 (2020: RMB285,000) or increase by RMB733,000 (2020: RMB285,000).

(iii) Other price risk

The Group is exposed to other price risk arising from the Investment and convertible note, which were classified as financial assets measured at FVTPL, and money market funds.

Sensitivity analysis

The Investment

The sensitivity analysis have been determined based on the exposure to other price risk at the reporting date. Sensitivity analyses for the Investment with fair value measurement categorised within Level 3 were disclosed in note 32c.

If the prices of the respective equity instruments had been 5% higher/lower, the post-tax loss for the year ended 31 December 2021 would decrease/increase by RMB4,039,000 (2020: nil) as a result of the changes in fair value of the Investment measured at FVTPL.

Convertible note

No sensitivity analysis is performed as the directors of the Company consider that the exposure of other price risk arising from the convertible note is insignificant because amount of investment in convertible note is insignificant.

Money market funds

No sensitivity analysis is performed as the directors of the Company consider that the exposure of other price risk arising from the money market fund is insignificant because investments in money market fund are mainly on government treasury securities with high credit rating and liquidity.

32. FINANCIAL INSTRUMENTS (continued)

32b 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.

In order to minimise credit risk, the Group has tasked its finance team to develop and maintain the Group's credit risk gradings to categorise 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 other debtors and other debt instruments issuers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst counterparties.

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

Category	Description	Trade receivables	Other financial assets/items
Performing	The counterparty has a low risk of default and does not have any past due amounts	Life time ECL-not credit impaired	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Life time ECL-not credit-impaired	Life-time ECL-not credit impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Life time ECL-credit impaired	Life-time 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 write-off	Amount is write-off

For the purpose of impairment assessment for trade receivables, with a total gross carrying amount of RMB117,598,000 (2020:Nil), the loss allowance is measured at an amount equal to life time ECL. For the purpose of impairment assessment for rental deposits, other receivables and receivables from directors and key managements of the Company, with a total gross carrying amount of RMB50,190,000 (2020: RMB116,230,000), the loss allowance is measured at an amount equal to 12m ECL. In determining the ECL for these financial assets, the directors of the Company have taken into account the assets positions of the counterparties in estimating the probability of default of each of the other receivables and other current assets 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 amount of ECL provision is insignificant.

32. FINANCIAL INSTRUMENTS (continued)

32b Financial risk management objectives and policies (continued)

***Credit risk and impairment assessment** (continued)*

As at December 31, 2021, the Group has concentration of credit risk as 28% and 97% of the total trade receivables were due from the Group's largest customer and the three largest customers, respectively. In order to minimize the credit risk with customers, the management of the Group has delegated its finance team responsible for determination of credit limits and credit approvals. Before accepting any new customers, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on collective assessment. Except for debtors with significant balances, which are assessed for impairment individually, the remaining trade receivables collectively assessed based on shared credit risk characteristics by reference to repayment histories for recurring customers.

The credit risk on restricted bank deposit, time deposits, cash at banks and investments in money market funds of the Group is limited because the counterparties are banks, bond issuers, government and financial institutions with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of liquidity risk, the management of the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group issues shares as a significant source of liquidity.

The directors of the Company are satisfied that the Group will have sufficient financial resource to meet its financial obligation as they fall due for the foreseeable future after taking into account of the aforesaid proceeds from the shares issuance and the expected working capital requirements for the next twelve months from the end of the reporting period.

The following table details remaining contractual maturity of the Group for the payables which has been drawn up based on the undiscounted cash flows based on the earliest date on which the Group can be required to pay.

32. FINANCIAL INSTRUMENTS (continued)

32b Financial risk management objectives and policies (continued)

***Liquidity risk** (continued)*

	Weighted average effective interest rate %	Repayable on demand or less than 1 year RMB'000	More than 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At December 31, 2021					
Bank borrowings	4.85%	37,625	125,974	163,599	146,511
Trade and other payables	–	66,660	–	66,660	66,660
Lease liabilities	5.34%	14,280	14,964	29,244	27,687
		118,565	140,938	259,503	240,858
At December 31, 2020					
Bank borrowings	4.83%	2,662	56,965	59,627	57,002
Trade and other payables	–	54,398	–	54,398	54,398
Lease liabilities	5.34%	9,625	19,249	28,874	26,857
		66,685	76,214	142,899	138,257

32. FINANCIAL INSTRUMENTS (continued)

32c Fair value measurements of financial instruments

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

Some of the Group's financial assets 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 are determined (in particular, the valuation techniques and inputs used).

In estimating the fair value, the Group uses market-observable data to the extent it is available. For instruments with significant unobservable inputs under Level 3, the Chief Financial Officer establishes the appropriate valuation techniques and inputs to the model and reports any findings to the directors of the Company.

Financial assets	Fair value at		Fair value hierarchy	Valuation techniques and key inputs
	December 31, 2021 *RMB'000*	December 31, 2020 *RMB'000*		
Convertible note	**3,188**	N/A	Level 2	Recent transaction Price
Investment in fund linked note	**122,895**	N/A	Level 3	Scenario-Based method-the key inputs are: DLOM: 20% Probability under different scenario *(note)* share price of class A shares:USD9.9
Money market funds	**11,217**	204,885	Level 2	Based on the net asset values of the funds, which are determined with reference to observable and quoted prices of underlying investment portfolio and adjustments of related expenses.
Wealth management plan	**–**	10,125	Level 2	Discounted cash flow method was used to estimate the return from underlying assets

Note:

A 5% increase/decrease in DLOM, while all other variables keep constant, would decrease the fair value of investment in fund linked note as at December 31, 2021 by RMB1,093,000,increase the fair value of investment in fund linked note as at December 31 ,2021 by RMB1,071,000. A 5% increase/decrease in probability under different scenario of the private equity investment, while all other variables keep constant, would increase/decrease the fair value of investment in fund linked note as at December 31, 2021 by RMB1,071,000. A 5% increase/decrease in share price of class A shares, while all other variables keep constant, would increase the fair value of investment in fund linked note as at December 31, 2021 by RMB854,000, decrease the fair value of investment in fund linked note as at December 31 ,2021 by RMB877,000.

32. FINANCIAL INSTRUMENTS (continued)

32c Fair value measurements of financial instruments (Continued)

(ii) Reconciliation of Level 3 fair value measurements

The following table presents the reconciliation of Level 3 measurements of financial assets at FVTPL during the years:

	RMB'000
At December 31, 2020	–
Purchase of investment in fund linked note	187,109
Net loss on investment in fund linked note	(64,214)
At December 31, 2021	122,895

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amount of the Group's financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both 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.

	Bank borrowings *RMB'000*	**Lease liabilities** *RMB'000*	**Total** *RMB'000*
At January 1, 2020	–	4,344	4,344
Financing cash flows	55,923	(5,622)	50,301
Non-cash changes:			
New leases entered	–	27,894	27,894
Finance cost	1,079	241	1,320
At December 31, 2020	57,002	26,857	83,859
Financing cash flows	88,521	(13,047)	75,474
Non-cash changes:			
New leases entered	–	12,623	12,623
Finance cost	988	1,254	2,242
At December 31, 2021	**146,511**	**27,687**	**174,198**

34. PARTICULARS OF SUBSIDIARIES

General information of subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are set out below:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid share capital/registered capital	Shareholding/equity interest attributable to the Company		Principal activities
			2021	2020	
Directly held					
CStone HK	Hong Kong	Issued capital of HK$1 and paid-up capital of HK$1	100%	100%	Investment holding
CStone Australia	Australia	Registered capital of AUD19,000,000 (equivalent to RMB99,476,400) and paid-up capital of AUD18,023,589 (equivalent to RMB115,009,490)	100%	100%	Research and development
CStone Pharmaceuticals Corporation	USA	Registered capital of USD1 (equivalent to RMB7) and paid-up capital of USD1 (equivalent to RMB6)	100%	100%	Investment holding
CStone Pharmaceuticals Singapore Pte. Ltd.	Singapore	Registered capital of USD1 (equivalent to RMB7) and paid-up capital of nil	100%	100%	Investment holding
CStone Medicine (BVI) Limited	BVI	Nil	100%	100%	Investment holding
Indirectly held:					
CStone Suzhou	The PRC *(Note)*	Registered capital of USD197,761,363 (equivalent to RMB1,337,882,387) and paid-up capital of USD197,761,363 (equivalent to RMB1,337,882,387)	100%	100%	Research and development and sales of drugs
拓石藥業(上海)有限公司	The PRC *(Note)*	Registered capital of RMB24,080,000 and paid-up capital of RMB4,011,600	100%	100%	Research and development
創石(北京)醫藥科技有限公司	The PRC *(Note)*	Registered capital of RMB10,000,000 and paid-up capital of RMB1,050,000	100%	100%	Research and development
申石生物醫藥(上海)有限公司	*The PRC (Note)*	Registered capital of USD20,000,000 and paid-up capital of USD14,000,000 (equivalent to RMB90,133,200)	100%	N/A	Commercialization
樂石生物醫藥(海南)有限公司	*The PRC (Note)*	Registered capital of USD10,000,000 and paid-up capital of USD1,000,000 (equivalent to RMB6,470,900)	100%	N/A	Commercialization

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

Note: CStone Suzhou, 申石生物醫藥(上海)有限公司 and 樂石生物醫藥(海南)有限公司 are foreign invested limited liability companies. 拓石藥業(上海)有限公司 and 創石(北京)醫藥科技有限公司 are domestic owned limited liability companies.

35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2021 RMB'000	2020 RMB'000
Non-current assets		
Investments in subsidiaries	**5,223,707**	3,722,081
Financial assets measured at FVTPL	**3,188**	–
Amounts due from subsidiaries	**13,800**	6,236
Intangible assets	**66,547**	–
	5,307,242	3,728,317
Current assets		
Other receivables	**6,062**	498
Time deposits with original maturity over three months	**860,720**	358,870
Cash and cash equivalents	**547,157**	2,845,222
	1,413,939	3,204,590
Current liabilities		
Other payables and accrued expenses	**178,725**	341,271
Amounts due to subsidiaries	**191,022**	29,953
	369,747	371,224
Net current assets	**1,044,192**	2,833,366
Net assets	**6,351,434**	6,561,683
Capital and reserves		
Share capital	**796**	787
Reserves	**6,350,638**	6,560,896
Total equity	**6,351,434**	6,561,683

35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

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

	Share premium *RMB'000*	Other reserves *RMB'000*	Treasury shares held in the trusts *RMB'000*	Share-base payment reserve *RMB'000*	Accumulated Losses *RMB'000*	Total *RMB'000*
At January 1, 2020	6,651,201	30	(30)	532,930	(2,476,232)	4,707,899
Profit and total comprehensive income for the year	–	–	–	–	157,946	157,946
Recognition of equity-settled share-based payment *(note 27)*	–	–	–	356,023	–	356,023
Subscription of new shares by Pfizer Corporation Hong Kong Limited	1,355,841	–	–	–	–	1,355,841
Exercise of share options *(note 27)*	43,536	–	–	(38,533)	–	5,003
Shares issued to trusts and converted into treasury shares held in trusts *(note 26)*	–	–	(18)	–	–	(18)
Restricted stock units exercised under the trust *(note 26)*	295,533	(29)	29	(295,533)	–	–
Repurchase and cancellation of shares	(21,798)	–	–	–	–	(21,798)
At December 31, 2020	8,324,313	1	(19)	554,887	(2,318,286)	6,560,896
Loss and total comprehensive expense for the year	–	–	–	–	(449,750)	(449,750)
Recognition of equity-settled share-based payment *(note 27)*	–	–	–	222,671	–	222,671
Exercise of share options *(note 27)*	58,896	–	–	(42,072)	–	16,824
Shares issued to trusts and converted into treasury shares held in trusts *(note 26)*	–	–	(3)	–	–	(3)
Restricted stock units exercised under the trust *(note 26)*	148,645	(11)	11	(148,645)	–	–
Withhold the number of equity instruments equal to the monetary value of the employee's tax obligation *(note 18)*	(67,252)	67,252	–	–	–	–
At December 31, 2021	**8,464,602**	**67,242**	**(11)**	**586,841**	**2,768,036**	**6,350,638**

Definitions

In this report, unless the context otherwise requires, the following terms have the following meanings. These terms and their definitions may not correspond to any industry standard definitions, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as our Company.

"Agios"	means	Agios Pharmaceuticals, Inc., a corporation incorporated on August 7, 2007 and existing under the laws of the State of Delaware, U.S., whose shares are listed on NASDAQ (ticker symbol: AGIO)
"AGM"	means	annual general meeting of the Company
"Articles" or "Articles of Association"	means	the fourth amended and restated articles of association of the Company adopted on January 30, 2019 with effect from Listing, as amended, supplemented or otherwise modified from time to time
"Audit Committee"	means	the audit committee of the Board
"Board", "our Board" or "Board of Directors"	means	the board of Directors of our Company
"Board Committees"	means	the Audit Committee, the Nomination Committee, the Compensation Committee, the Strategy Committee and the Investment Committee
"CAGR"	means	compound annual growth rate
"CDE"	means	Center for Drug Evaluation
"CG Code"	means	The Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Chairman"	means	the chairman of the Board
"China" or "PRC"	means	the People's Republic of China, for the purposes of this report only, excluding Hong Kong and Macau Special Administrative Region and Taiwan
"Companies Ordinance"	means	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "CStone" or "our Company"	means	CStone Pharmaceuticals (stock code: 2616), an exempted company with limited liability incorporated under the laws of the Cayman Islands on December 2, 2015, the Shares of which are listed on the Main Board of the Stock Exchange
"Compensation Committee"	means	the compensation committee of the Board
"Consolidated Financial Statements"	means	the audited consolidated financial statements of the Group

"Corporate Governance Report"	means	the corporate governance report of the Group for the year ended December 31, 2021
"CRO(s)"	means	contract research organization, a company that provides support to the pharmaceutical, biotechnology, and medical device industries in the form of research services outsourced on a contract basis
"CStone Suzhou"	means	CStone Pharmaceuticals (Suzhou) Co., Ltd. (基石藥業(蘇州)有限公司), a company established under the laws of the PRC on April 21, 2016 and one of the Company's subsidiaries
"CTA"	means	clinical trial agreement
"Director(s)"	means	the director(s) of our Company
"General Mandate"	means	the mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on June 23, 2021 to issue, allot and deal with up to 20% of the then issued share capital of the Company as at the date of annual general meeting of 2021
"GIST"	means	gastrointestinal stromal tumor, a type of tumor that occurs in the gastrointestinal tract, most commonly in the stomach or small intestine
"Global Offering"	means	the Hong Kong public offering and the international offering of the Shares
"Group", "our Group", "the Group", "we", "us", or "our"	means	the Company and its subsidiaries from time to time
"HCC"	means	hepatocellular carcinoma, a type of cancer arising from hepatocytes in predominantly cirrhotic liver
"HKD" or "HK$" or "HK dollars"	means	Hong Kong Dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	means	the Hong Kong Special Administrative Region of the PRC
"IND"	means	investigational new drug or investigational new drug application, also known as clinical trial application in China or clinical trial notification in Australia
"Independent Auditor" or "Deloitte"	means	Deloitte Touche Tohmatsu
"INED(s)"	means	the independent non-executive Director(s)
"Investment Committee"	means	the investment committee of the Board

"IO"	means	immuno-oncology
"IPO"	means	the initial public offering of the Company on the Stock Exchange
"Latest Practicable Date"	means	May 30, 2022, being the latest practicable date prior to the printing of this report for the purpose of ascertaining certain information contained in this report
"Listing"	means	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	means	February 26, 2019, being the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	means	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	means	the stock exchange (excluding the option market) operated by the Stock Exchange, which is independent from and operated in parallel with the GEM of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the GEM
"Memorandum" or "Memorandum of Association"	means	the fourth amended and restated memorandum of association of the Company adopted on January 30, 2019 with effect from Listing, as amended, supplemented or otherwise modified from time to time
"Pfizer"	means	Pfizer Inc., a company incorporated in Delaware and listed on the New York Stock Exchange (NYSE: PFE)
"Pfizer Corporation"	means	Pfizer Corporation Hong Kong Limited, a company incorporated in Hong Kong with limited liability, an indirectly wholly-owned subsidiary of Pfizer
"Model Code"	means	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"NDA"	means	new drug application
"NMPA"	means	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)
"Nomination Committee"	means	the nomination committee of the Board
"Post-IPO ESOP"	means	the Company's post-IPO employee share option plan
"Post-IPO RSU Scheme"	means	the Company's post-IPO restricted share award scheme

"Preferred Share(s)"	means	preferred share(s) in the share capital of the Company prior to the Listing
"Pre-IPO Incentivization Plan"	means	the Company's pre-IPO employee equity plan
"Prospectus"	means	the prospectus of the Company, dated February 14, 2019, in relation to the Global Offering
"Reporting Period"	means	the one-year period from January 1, 2021 to December 31, 2021
"RET"	means	rearranged during transfection
"RMB" or "Renminbi"	means	Renminbi Yuan, the lawful currency of China
"Securities Transactions Code"	means	the code of conduct of the Company regarding Directors' securities transactions, namely the Policy on Management of Securities Transactions by Directors
"SFO"	means	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)"	means	ordinary share(s) of US$0.0001 each in the issued share capital of our Company
"Share Incentivization Schemes"	means	the Pre-IPO Incentivization Plan, Post-IPO ESOP and Post-IPO RSU Scheme
"Share Subscription Agreement"	means	the Share Subscription Agreement dated September 30, 2020 entered into between the Company and Pfizer Corporation in respect of the Subscription
"Shareholder(s)"	means	holder(s) of Shares
"SM"	means	systemic mastocytosis, a form of mastocytosis, in which mast cells accumulate in internal tissues and organs such as the liver, spleen, bone marrow, and small intestines
"Stock Exchange"	means	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	means	the strategy committee of the Board
"Subscription"	means	the subscription of the Subscription Shares under the Share Subscription Agreement
"Subscription Price"	means	US$1.725 per Share (equivalent to approximately HK$13.37 per Share) as set out in the Share Subscription Agreement

"Subscription Shares"	means	a total of 115,928,803 new Shares to be allotted and issued by the Company to Pfizer Corporation under the Share Subscription Agreement
"TGA"	means	Therapeutic Goods Administration of Australia
"U.S."	means	United States of America
"U.S. FDA" or "FDA"	means	U.S. Food and Drug Administration
"USD" or "US$" or "US dollars"	means	United States Dollars, the lawful currency of the United States of America
"Zhengze Yuanshi"	means	Suzhou Industrial Park Zhengze Yuanshi Venture Capital L.P. (蘇州工業園區正則原石創業投資企業(有限合夥))
"%"	means	per cent.

In this report, unless otherwise indicated, the terms "associate", "associated corporation", "connected person", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules.


基石药业
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