



CANbridge Pharmaceuticals Inc.
北海康成製藥有限公司

(於開曼群島註冊成立的有限公司)
(Incorporated in the Cayman Islands with limited liability)

股份代號 Stock Code : **1228**

2021
Annual Report





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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 definition, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as the Company.

“AGM” or “Annual General Meeting”	the annual general meeting of the Company to be convened and held at Basel Hall, Swissotel Grand Shanghai, 1 Yuyuan Road, Jing’an, Shanghai, PRC with online access (http://meetings.computershare.com/CANPAGM2022) on Friday, June 24, 2022 at 9:00 a.m. or any adjournment thereof
“Articles of Association” or “Articles”	articles of association of our Company adopted on November 18, 2021 with effect from the Listing Date, as amended from time to time
“Associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of directors of our Company
“CEO” or “Chief Executive Officer”	chief executive officer of our Company
“Chief Financial Officer”	chief financial officer of our Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“China” or “PRC”	People’s Republic of China, but for the purpose of this report and for geographical reference only and except where the context requires otherwise, references in this report to “China” and the “PRC” do not apply to Hong Kong, Macau and Taiwan
“Company” or “Our Company”	CANbridge Pharmaceuticals Inc. (北海康成製藥有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 30, 2018
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Core Product”	has the meaning ascribed thereto under Chapter 18A of the Listing Rules
“Director(s)”	the directors of the Company

DEFINITIONS

“Dr. Xue”	Dr. James Qun Xue, the founder, Chairman of the Board, executive Director and Chief Executive Officer of our Company
“FDA”	The United States Food and Drug Administration, a federal agency of the Department of Health and Human Services
“Global Offering”	the Hong Kong public offering and the international offering of the Shares as described in the Prospectus
“Group”, “our Group”, “our”, “we” or “us”	the Company, its subsidiaries and consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries and consolidated affiliated entities, such subsidiaries and consolidated affiliated entities as if they were subsidiaries and consolidated affiliated entities of our Company at the relevant time
“HKD”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Listing”	the listing of the shares on the Main Board of the Stock Exchange
“Listing Date”	December 10, 2021
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Memorandum” or “Memorandum of Association”	the tenth amended and restated articles of association of our Company adopted by special resolution on November 18, 2021 with effect from Listing, as amended from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
“NMPA”	the National Medical Products Administration of China (中國國家藥品監督管理局)

DEFINITIONS

“Nomination and Corporate Governance Committee”	The nomination and corporate governance committee of the Board
“Post-IPO RSU Scheme”	the RSU scheme adopted by our Company on November 18, 2021
“Post-IPO Share Option Scheme”	the share option scheme adopted by our Company on November 18, 2021
“Pre-IPO Equity Incentive Plan” or “2019 Equity Incentive Plan”	the 2019 equity incentive plan adopted by our Company on July 25, 2019, as amended on June 11, 2021
“Prospectus”	the prospectus of the Company dated November 30, 2021
“Puma”	Puma Biotechnology, Inc. (Nasdaq: PBYI)
“Remuneration Committee”	The remuneration committee of the Board
“Reporting Period”	the year ended December 31, 2021
“RMB”	Renminbi, the lawful currency of China
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares in the share capital of our Company with a nominal value of USD0.00001 each
“Shareholder(s)”	holder(s) of our Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“USD”	United States dollars, the lawful currency of the United States
“%”	per cent

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Dr. James Qun Xue (*Chairman*)

Non-executive Directors

Dr. Kan Chen
Dr. Derek Paul Di Rocco
Mr. Xiao Le

Independent Non-executive Directors

Dr. Richard James Gregory
Mr. James Arthur Geraghty
Mr. Peng Kuan Chan
Dr. Lan Hu (*appointed with effect from
February 16, 2022*)

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Suite 301
3F, Timeloit
No. 17 Rong Chuang Road
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A131, 16/F, Tower 5
The Gateway, Harbour City
15 Canton Road, Tsim Sha Tsui
Hong Kong

LEGAL ADVISER

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

REGISTERED OFFICE

89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

PRINCIPAL SHARE REGISTRAR

Ogier Global (Cayman) Limited
89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPLIANCE ADVISOR

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

PRINCIPAL BANKS

SPD Silicon Valley Bank
22F, Block B, Baoland Plaza
588 Dalian Rd
Shanghai
PRC

Silicon Valley Bank
3003 Tasman Drive
Santa Clara
CA 95054, USA

CORPORATE INFORMATION

JOINT COMPANY SECRETARIES

Ms. Qian Ma

Mr. Keith Shing Cheung Wong (*resigned with effect from April 1, 2022*)

Mr. Wai Chiu Wong (*appointed with effect from April 1, 2022*)

AUTHORIZED REPRESENTATIVES

Dr. James Qun Xue

Mr. Keith Shing Cheung Wong (*resigned with effect from April 1, 2022*)

Mr. Wai Chiu Wong (*appointed with effect from April 1, 2022*)

AUDIT COMMITTEE

Mr. Peng Kuan Chan (*Chairperson*)

Dr. Richard James Gregory (*ceased to be a member with effect from February 16, 2022*)

Mr. James Arthur Geraghty (*became a member with effect from February 16, 2022*)

Dr. Kan Chen

REMUNERATION COMMITTEE

Dr. Richard James Gregory (*Chairperson*)

Mr. James Arthur Geraghty (*ceased to be a member with effect from February 16, 2022*)

Dr. Lan Hu (*became a member with effect from February 16, 2022*)

Mr. Xiao Le

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Dr. James Qun Xue (*Chairperson*)

Dr. Derek Paul Di Rocco

Dr. Richard James Gregory

Mr. James Arthur Geraghty

Mr. Peng Kuan Chan

STOCK CODE

1228

AUDITOR

Ernst & Young

Certified Public Accountants and Registered Public Interest Entity Auditor

27/F, One Taikoo Place

979 King's Road

Quarry Bay, Hong Kong

COMPANY WEBSITE

www.canbridgepharma.com

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last three* financial years, as extracted from the audited financial information and financial statements is set out below:

	Year ended December, 31		
	2019 RMB'000	2020 RMB'000	2021 RMB'000
REVENUE	1,469	12,032	31,161
Cost of sales	(504)	(5,154)	(12,385)
Gross profit	965	6,878	18,776
Other income and gains	580	1,359	13,402
Selling and distribution expenses	(28,881)	(51,008)	(100,748)
Administrative expenses	(53,719)	(77,716)	(145,517)
Research and development expenses	(55,383)	(109,642)	(427,658)
Fair value changes of convertible redeemable preferred shares	(73,694)	(591,385)	(462,436)
Fair value changes of convertible loans	(1,584)	1,689	–
Fair value changes of derivative financial instruments	(17)	(20,746)	34,454
Finance costs	(2,275)	(3,873)	(3,079)
Other expenses	(3,667)	(1,599)	(4,200)
LOSS BEFORE TAX	(217,675)	(846,043)	(1,077,006)
Income tax expense	–	–	–
LOSS FOR THE YEAR	(217,675)	(846,043)	(1,077,006)
Cash and bank balances	13,873	360,804	745,815
Total current assets	37,905	391,045	811,711
Total non-current assets	50,645	195,313	80,811
Total current liabilities	43,749	108,103	185,780
Total non-current liabilities	1,035,447	2,224,111	13,351
Total (deficit) /equity	(990,646)	(1,745,856)	693,391

* The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited under Chapter 18A of the Listing Rule on December 10, 2021.

FINANCIAL HIGHLIGHTS

- Our cash and bank balances increased by RMB385.0 million from RMB360.8 million as of December 31, 2020 to RMB745.8 million as of December 31, 2021, which was primarily attributed to our proceeds from pre-IPO financing in May 2021 and the Global Offering.
- Our revenue increased by RMB19.2 million from RMB12.0 million for the year ended December 31, 2020 to RMB31.2 million for the year ended December 31, 2021, which was mainly attributable to the increase of sales from Hunterase® and Nerlynx®.
- Our research and development expenses increased by approximately RMB318.1 million, from RMB109.6 million for the year ended December 31, 2020 to RMB427.7 million for the year ended December 31, 2021, which was primarily attributable to our increased payments made to our licensing partners, increased R&D employee costs and other testing and clinical trial expenses.
- Fair value loss of convertible redeemable preferred shares decreased by RMB129.0 million from RMB591.4 million for the year ended December 31, 2020 to RMB462.4 million for the year ended December 31, 2021, which was in line with the changes in our Company's valuation.
- Loss for the year increased by approximately RMB231.0 million from RMB846.0 million for the year ended December 31, 2020 to RMB1,077.0 million for the year ended December 31, 2021, which was primarily attributable to the increase of research and development costs and administrative expenses.
- The adjusted loss for the year was RMB581.3 million for the year ended December 31, 2021, increased by RMB370.7 million from RMB210.6 million for the year ended December 31, 2020. The adjusted loss for the year is arrived at by adjusting the IFRS loss for the year of RMB1,077.0 million (2020: RMB846.0 million) from excluding the effect of (i) a one-time, non-cash, IFRS fair value changes of our pre-IPO convertible redeemable preferred shares and derivative financial instruments, (ii) the share-based payment expenses, and (iii) the listing expenses. Please refer to the section headed “– Financial Review – Non-IFRS Measures” in the Management Discussion and Analysis of this report, for details.

CHAIRMAN'S STATEMENT

Dear CANbridge Pharmaceuticals Shareholders:

2021 has been a transformational year for CANbridge. Despite the challenges we all continue to face with the global pandemic, CANbridge has made significant progress building a leading China-based, global biopharmaceutical company developing and commercializing drugs that treat rare and difficult to treat diseases.

CANbridge was founded in 2012 and is committed to the research, development and commercialization of biotech therapies targeting rare diseases in large underserved global markets. Rare diseases are commonly defined as any disease that affects 200,000 or fewer people (US dfn). Rare disease drugs represent a large global market opportunity valued in excess of USD135.1 billion in 2020. Despite the prevalence of rare disease in China being nearly four times larger than that of U.S. or Europe, it represents less than 1% of total in terms of revenue. We believe this creates a large and tangible opportunity for CANbridge and our goal is to pioneer the development of rare disease products in China.

Our business model focuses on strategically combining global collaborations and internal research capabilities to build (in-license) a portfolio of products where our collaborators have established clinical proof of concept thereby reducing substantially development risk. To execute our business model, we have assembled a leading management team which collectively has a track record of successfully developing and commercializing rare disease therapies across the key markets including China, the United States, Europe, Latin America, and Southeast Asia. Leveraging our management's expertise, we have the ability to play an active role in advancing the rapidly growing and untapped rare disease market and shaping the rare disease ecosystem in China. Today we have a leading drug portfolio that consists of 13 drug assets targeting rare disease with significant market potential, including three marketed products, four drug candidates at clinical stage, one at IND-enabling stage, two at preclinical stage and another three gene therapy programs at lead identification stage.

In 2021 we have made tremendous progress advancing each of these programs. In April 2021, we obtained the IND approval, and we dosed the first patient in a Phase 2 clinical trial in October 2021 evaluating CAN008 as a potential first-line treatment for a rare form of brain cancer called glioblastoma (GBM) in mainland China. GBM represents the deadliest form of brain cancer accounting for 45% of all malignant brain tumors. CAN008 has demonstrated robust efficacy and favourable safety profiles in both the completed and ongoing clinical trials, presenting a potentially effective option in the treatment of this devastating cancer.

We have also made considerable progress advancing CAN108 (maralixibat), a potential treatment for rare cholestatic liver diseases, including Alagille syndrome (ALGS), progressive familial intrahepatic cholestasis (PFIC), and biliary atresia (BA). Maralixibat has been extensively studied by our partner, Mirum, in over 1,600 patients with demonstrated safety and efficacy in multiple studies and recently received FDA approval in the U.S. in September 2021. We submitted CAN108 New Drug Application (NDA) for ALGS in December, which was accepted by China's National Medical Product Administration in January 2022. We believe CAN108 exemplifies our ability to identify de-risked products, that target large potential markets, and that we can efficiently progress to clinical trials. We look forward to starting clinical trials in mainland China and Taiwan.

CHAIRMAN'S STATEMENT

We are also very enthusiastic about CAN106 which we are developing for the treatment of complement-mediated diseases including paroxysmal nocturnal hemoglobinuria (PNH) and various other complement-mediated diseases. We obtained global rights to develop and commercialize the product from WuXi Biologics and Privus and we plan to develop CAN106 to be a best in class that is competitively priced and is the preferred treatment option in China, with a view to gaining approval in Western countries later in the clinical development program. We initiated a Phase 1 clinical trial in healthy volunteers for CAN106 in Singapore in February 2021 and obtained the IND approval from the NMPA for PNH in July 2021 for a Phase 1b/2 study in China. We reported positive top line CAN106 Phase 1 data on Feb 2022, results suggest completed blockade of complement function CAN106 safe and well -tolerated. We look forward to conduct Phase 1b/2 clinical trial in conducting PNH in China.

Beyond our current programs in the clinic, we are investing in next-generation technologies such as gene therapies. In 2021 we made tremendous progress with this initiative and established global partnerships with LogicBio, entered into research collaboration with Scriptr for a transformative AAV-based technology platform, and entered into research collaboration with world-renowned scientist Dr. Jeffery Chamberlain of University of Washington to develop DMD gene therapy. We believe gene therapy represents the future and our goal is to become a global leader developing these potentially one-time, durable treatments for various rare genetic diseases.

CANbridge established a full-fledged commercial team in Greater China that is capable of launching the next wave of products and driving significant growth for the Company. 2021 was also a year of important corporate milestones for CANbridge. Early in the year we successfully completed a pre-IPO financing raising USD52 million and culminated the year with the listing on the Main Board of the Hong Kong Stock Exchange in December where we raised USD88 million. The Company became a public company supported by a leading group of well-positioned international investors who believe in our vision and we are now well positioned financially to achieve results that will propel the company to new heights and create robust returns for our existing and new Shareholders.

Overall, we are proud of our first year as a public company and we enter 2022 with tremendous momentum. All of the above highlight the special opportunity in front of us. I'm convinced that with the strength of our science, the experience of our management team, the leadership of our Board and a world class team of employees and external partners, we are well-positioned to develop and commercialize first-in-class therapeutics that have the potential to dramatically improve life for those living with rare diseases.

Thank you, our shareholders, for helping build CANbridge, and for your commitment to making a difference in the lives of millions of patients and their families.

Sincerely,

Dr. James Qun Xue

Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

We are a China-based, rare disease-focused biopharmaceutical company founded in 2012 that is committed to the research, development and commercialization of biotech therapies. As of December 31, 2021, we had developed a comprehensive pipeline of 13 drug assets with significant market potential targeting some of the most prevalent rare diseases as well as rare oncology indications, including three marketed products, four drug candidates at clinical stage, one at IND-enabling stage, two at preclinical stage, and three gene therapy programs at lead identification stage. CAN008, our Core Product, is a glycosylated CD95-Fc fusion protein being developed for the treatment of GBM. We are developing the other 12 of drug candidates in our pipeline as of December 31, 2021.

We are led by a management team with significant industry experience in rare diseases, spanning R&D, clinical development, regulatory affairs, business development and commercialization, supported by a pool of talent of 183 employees where 23 had a Ph.D. and/or M.D. degree, more than 78% of our employees had experience working at multinational biopharmaceutical companies as of December 31, 2021. Our management team collectively has a track record of successfully commercializing rare disease therapies across the key markets including China, the United States, Europe, Latin America, and Southeast Asia. Leveraging our management's expertise, we play an active role in advancing the rare disease industry and shaping the rare disease ecosystem in China. For example, our founder Dr. Xue is currently serving as the Deputy Director General of China's Alliance for Rare Disease (CHARD).

Since our inception in 2012, we have built a comprehensive portfolio targeting diseases with validated mechanisms of actions and significant market potential. Our pipeline consists of biologics, small molecules, and gene therapy solutions. We adopted an in-licensing business model and apart from our internal efforts in developing gene therapy solutions for neuromuscular disorders, all of our product pipeline as of December 31, 2021 have been in-licensed from our business partners. We will continue to enrich it via business partnerships and collaborations with academic institutions, together with in-house research and development.

- In the rare disease area, we have seven biologics and small molecules products and product candidates for the treatment of Hunter Syndrome (MPS II) and other lysosomal storage disorders (LSDs), complement mediated disorders, hemophilia A, metabolic disorders, and rare cholestatic liver diseases including ALGS, PFIC and BA. Among these, we obtained the marketing approval for Hunterase® (CAN101) for MPS II in mainland China in September 2020. We initiated a Phase 1 clinical trial in healthy volunteers for CAN106 in Singapore in February 2021; obtained the IND approval from the NMPA for PNH in July 2021 for a Phase 1 study in China; and reported positive top line CAN106 Phase 1 data in February 2022. Results suggest complete blockade of complement function. CAN106 was shown to be safe and well-tolerated. CAN108 NDA for ALGS was accepted and granted priority review by NMPA in January 2022.
- In the rare oncology area, we are developing CAN008 for the treatment of glioblastoma multiforme (GBM). In 2018, we completed a Phase 1 clinical trial for CAN008 in Taiwan, which has successfully bridged CAN008 to Asian patients with newly diagnosed GBM on the back of clinical data previously obtained in overseas trials. We have obtained IND approval from the NMPA to commence first-line Phase 2 clinical trial of CAN008 and dosed the first patient in a Phase 2 clinical trial of CAN008 for the first-line treatment of GBM patients in mainland China in October 2021. We also obtained marketing approval for two other oncology products, Caphosol™ (CAN002) in mainland China and Nerlynx® (CAN030) in Greater China.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition to biologics and small molecules, we are investing in next-generation technology for gene therapies. Gene therapies provide a potentially one-time, durable treatment for various rare genetic diseases with limited treatment options. As of December 31, 2021, we are using AAV sL65 capsid vector for the treatment of Fabry disease and Pompe disease. We licensed sL65 in from LogicBio Therapeutics to develop two gene therapy products, with options to develop two additional indications using the same vector, and a clinical-stage gene editing program for the treatment of methylmalonic acidemia (MMA) pursuant to our collaboration agreements with LogicBio Therapeutics. We are also working with University of Massachusetts Medical School, our research partner, on sponsored research programs to develop gene therapy solutions for neuromuscular disorders, with the exclusive option to license-in the assets for development. In addition, we are internally developing an adeno-associated virus (AAV) delivery platform targeting different tissues such as the central nervous system (CNS) and muscle.

Market opportunities in the rare disease industry

The global rare disease industry is a sector of biopharmaceutical market focusing on the discovery and commercialization of medicines for the treatment of diseases which affect a small number of people, as compared with other more prevalent diseases in the general population. Driven by its unique features, the rare disease industry is considered to be a highly efficient business model. According to Frost & Sullivan, most rare diseases are caused by genetic mutations with well-defined pathology, which leads to higher probability of technical and regulatory success (“**PTRS**”) in the research & development (“**R&D**”) of rare disease drugs. Certain rare disease patients are treated at a limited number of specialized hospitals and therefore sales efforts for rare disease drugs can be much more targeted. The unique nature of rare diseases has also led to a favorable regulatory environment in various countries, such as the Orphan Drug Act in the United States, which helps accelerate the development and commercialization process of rare disease drugs.

The global rare disease drug market has grown rapidly since 1983, when the Orphan Drug Act was first promulgated by the FDA, which set standards for regulatory pathways that have been followed by other jurisdictions. The size of global rare disease drug market grew from USD109.0 billion in 2016 to USD135.1 billion in 2020, representing a CAGR of 5.5%. It is estimated to further grow to USD383.3 billion in 2030 at a CAGR of 11.0% from 2020 to 2030. Growing awareness of rare disease has augmented the demand for special treatments, together with rising healthcare expenditure, positively impacting the rare disease treatment market growth. The U.S. and Europe remain the largest rare diseases markets globally.

MANAGEMENT DISCUSSION AND ANALYSIS

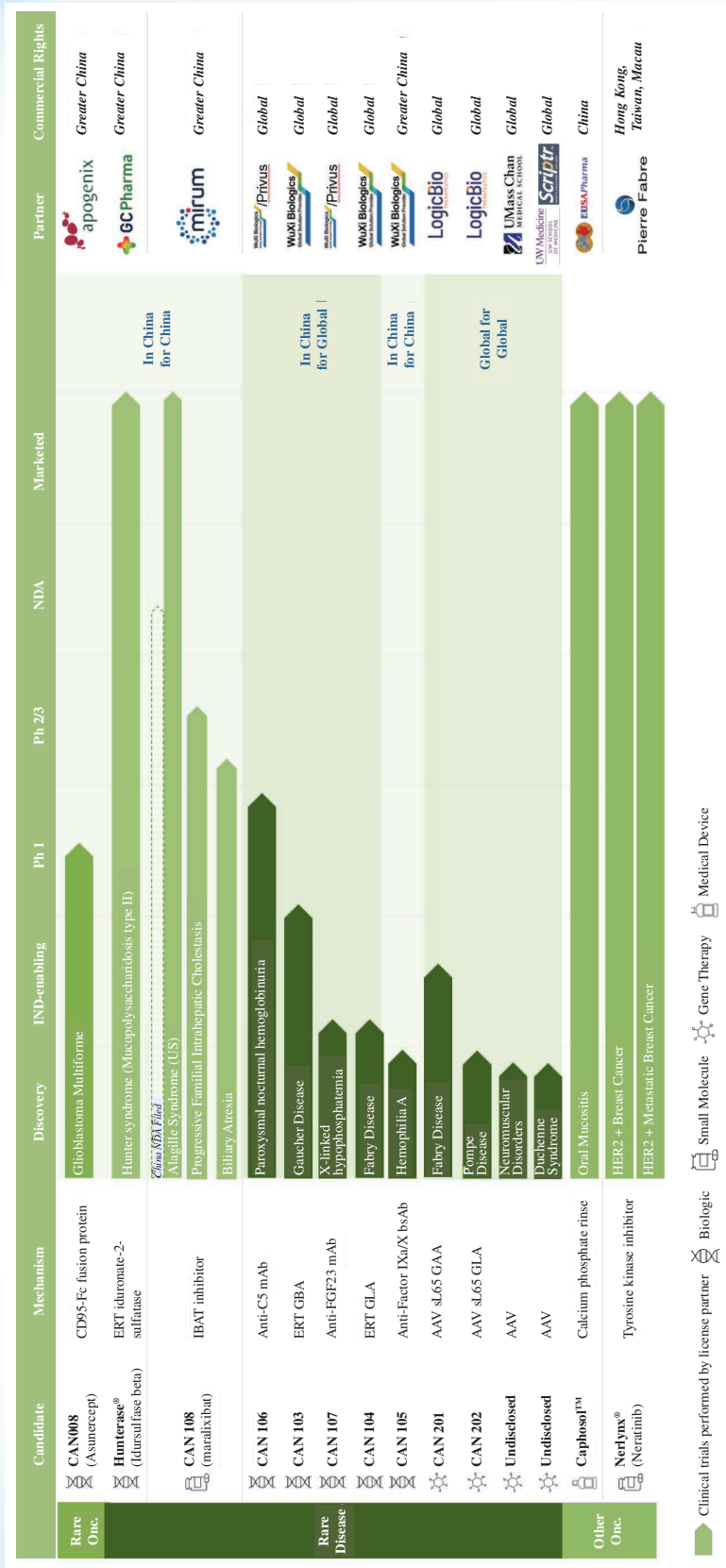
The rare disease markets in developing countries are relatively underpenetrated due to limited access to diagnosis and treatments of rare diseases. The market size of rare disease drugs in China was only approximately USD1.3 billion in 2020, far below that in the U.S or Europe. Applying the definition of rare disease used by the FDA in the U.S., the prevalence of rare diseases in China in 2019 indicates a patient pool potentially over four times larger than the U.S. according to Frost & Sullivan. The discrepancy between patient population and market size suggests significant room for rare disease drug growth in China. According to Frost & Sullivan, the rare disease drug market in China is expected to grow dramatically from USD1.3 billion in 2020 to USD25.9 billion in 2030 at a CAGR of 34.5%, as compared to the market growth in the U.S. and the rest of the world in the same period at a CAGR of 10.5% and 10.0%, respectively. The China rare disease drug market accounted for 0.4% and 1.0% of the global rare disease market in 2016 and 2020, respectively, and is expected to account for 6.8% in 2030, indicating favorable rare disease market outlook. With a concentrated population of untreated patients larger than that of the U.S. and Europe, China offers great opportunities for rare disease pharmaceutical companies to capture a massive market at potentially lower costs than other disease areas. In response to such significant market opportunity, many leading pharmaceutical companies such as Sanofi have launched products in China and other developing countries. We believe that companies like CANbridge is uniquely positioned to bridge the gap and provide sustainable solutions to the medical needs of global patients in an efficient manner.

In addition, the rare disease industry in China is expected to benefit from various regulatory initiatives. In recognition of the urgency for the development of effective rare disease treatment and the unique clinical challenges associated with such development, authorities in the U.S. and Europe have provided regulatory incentives and adopted special regulatory frameworks to encourage development and commercialization of drugs to treat rare diseases and to support companies with a focus on rare disease treatment. In 2018, China published the first edition of the Rare Disease List that includes 121 rare diseases, hallmarking the transformational debut of the Chinese rare disease market. Similar to the U.S. and Europe, a high degree of regulatory flexibility has been introduced to rare disease drug approval process in China, including simplified application process, flexibility in clinical trial design, higher likelihood of clinical trial waiver on the basis of overseas clinical data and post-approval clinical trials. China has also moved towards a more favorable reimbursement environment for rare diseases. After years of efforts in providing insurance mechanism of rare diseases at local level, a dozen of provinces and cities have implemented insurance policies for rare disease with various reimbursement models. In 2021, the initiation of formulation of the second edition of the Rare Disease List was announced by the National Health Commission of the PRC and more rare disease drugs are expected to be included, according to Frost & Sullivan.

Enabled by new technologies, gene therapies have become an emerging solution for rare diseases. Approximate 80% of rare diseases result from genetic disorders, according to Frost & Sullivan. Gene therapies serve as a promising solution for a broad spectrum of rare diseases by fundamentally addressing the underlying cause of the diseases. Recent advances in genetic engineering and recombinant viral vector development have ignited interest in the field, with several gene therapy products gaining approvals. The success of several pioneering clinical trials in gene therapy validated its efficacy and safety, such as Zolgensma developed by Novartis, making targeted treatments available for spinal muscular atrophy (SMA), and thus marking the potential of gene therapies to provide solutions to rare diseases that currently have no effective therapeutic options.

MANAGEMENT DISCUSSION AND ANALYSIS

PIPELINE



Clinical trials performed by license partner Biologic Small Molecule Gene Therapy Medical Device

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company was listed on the Stock Exchange on December 10, 2021. Since then, the Company has made significant progress with respect to its drug pipeline and business operations, including the following milestones and achievements.

Hunterase® (CAN101)

- Hunterase® is the first ERT approved for the treatment of Hunter Syndrome (MPS II) in China. Given that ERT is the standard of care for Hunter Syndrome and there is currently no other drug treatment available in China, we believe there is a significant market opportunity for Hunterase® (CAN101).
- We successfully received the marketing approval from China's NMPA for Hunterase® (CAN101) in September 2020. Hunterase® (CAN101) is currently marketed in over 10 countries worldwide by GC Pharma. In a head-to-head Phase 1 study, Hunterase® (CAN101) demonstrated favorable efficacy as compared to Elaprase®, a drug commonly used to treat Hunter Syndrome globally.
- We commercially launched Hunterase® (CAN101) in China in May 2021 in a non-reimbursed market.
- The Company plans to expand its dedicated, in-house commercialization team and expects to assemble a full-fledged rare disease commercialization team in China, with over 300 members, in the next five years, with the ability to commercial multiple rare disease products.

Our Core Product – CAN008

- CAN008 is an artificially engineered antibody-like fully human fusion protein for the treatment of GBM. It binds to CD95L and blocks its interaction with the CD95 receptor. As our Core Product, CAN008 has demonstrated robust efficacy and favorable safety profiles in both the completed and ongoing clinical trials, presenting a potentially effective option in the treatment of GBM. A Phase 2 pivotal trial conducted by Apogenix has shown statistically significant improvements by over 50% in 4-month to 6-month progression-free survival and quality of life as well as a positive trend in overall survival in patients with relapsed GBM.
- We completed the Phase 1 trial in Taiwan and results show CAN008 was generally well tolerated in patients with GBM. No dose-limiting toxicity was observed and no treatment-related serious adverse events were reported.
- We received the approval for a first-line Phase 2 trial in China on patients with GBM in April 2021 and dosed the first patient in this trial in October 2021.
- Based on the interim analysis expected in 2023, we may file for conditional approval or breakthrough designation in China.

MANAGEMENT DISCUSSION AND ANALYSIS

CAN108 (maralixibat)

- CAN108 is an oral, minimally absorbed reversible inhibitor of the ileal bile acid transporter (IBAT) and is under development to treat rare cholestatic liver diseases, including ALGS, PFIC and BA. Maralixibat possesses an extensive safety dataset, having been evaluated in more than 1,600 human subjects. Maralixibat has been studied in a number of completed and ongoing clinical trials in ALGS and PFIC with over 120 children treated and some on study for over seven years. In ICONIC, a Phase 2b placebo-controlled randomized clinical trial conducted for ALGS by Mirum, our collaboration partner in the U.S., patients receiving maralixibat experienced significant reductions in bile acids and pruritus, improvements in quality of life and xanthomas and accelerated long-term growth compared to placebo. In INDIGO, a Phase 2 study conducted for PFIC by Mirum, patients who responded to maralixibat were shown to have significant improvement in transplant-free survival and experienced improvements across multiple parameters including normalization of liver enzyme and bilirubin levels, decreased pruritus, and improvements in growth. Mirum obtained FDA approval for maralixibat for ALGS in September 2021.
- Submitted in December 2021 a New Drug Application (NDA) for CAN108 for the treatment of cholestatic pruritus in patients with ALGS in mainland China based on data from global studies conducted by our collaboration partner, Mirum.
- CAN108 New Drug Application (NDA) for ALGS accepted and granted priority review by NMPA in January 2022.
- For BA, we are supporting the patient recruitment and clinical site management in China for a Phase 2 global multi-center clinical trial initiated in May 2021 by Mirum, our collaboration partner.

CAN106

- CAN106 is a humanized monoclonal antibody against complement C5 being developed for the treatment of complement-mediated diseases including paroxysmal nocturnal hemoglobinuria (PNH) and various other complement-mediated diseases that are targeted by approved anti-C5 antibodies and other new potential indications. We have obtained global rights to develop, manufacture and commercialize this drug candidate from WuXi Biologics and Privus in 2019 and 2020 respectively. Based on preclinical data, CAN106 has demonstrated a favorable PK/PD profile and tolerability, indicating that CAN106 has the potential to effectively inhibit C5 in patients with PNH and potentially with reduced dosing frequency.
- We initiated a Phase 1 clinical trial in healthy volunteers for CAN106 in Singapore in February 2021 and obtained the IND approval from the NMPA for PNH in July 2021 for a Phase 1 study in China.
- Reported positive top line CAN106 Phase 1 data from Singapore trial in February 2022. Results suggest complete blockade of complement function. CAN106 was shown to be safe and well-tolerated.

MANAGEMENT DISCUSSION AND ANALYSIS

CAN103

- In October 2021, we announced that the Investigational New Drug (IND) application for CAN103 has been approved by the NMPA. CAN103 is an enzyme replacement therapy (ERT) being developed by CANbridge as part of its rare disease partnership with WuXi Biologics (2269.HK) for the long-term treatment of adults and children with GD, Types I and III.

Gene Therapy – CAN201 and CAN202

- sL65 is a next generation liver-tropic AAV capsid platform for use in gene editing and gene therapy. At the American Society of Gene & Cell Therapy (“**ASGCT**”) conference in May 2020, data was presented showing that the capsids delivered highly efficient functional transduction of human hepatocytes in a humanized mouse model and non-human primates. The data also showed the capsids exhibited improved manufacturability and more resistance to pre-existing neutralizing antibodies in human serum samples.
- We are devising preclinical strategies on CAN201 as we and LogicBio, our collaboration partner, conduct preclinical evaluations of this drug candidate. Our development plan on CAN202 is subject to the development status of CAN201 to de-risk the process.
- We obtained exclusive worldwide license rights in sL65 from LogicBio Therapeutics through a license agreement dated April 26, 2021 to develop and commercialize four gene therapy products in sL65, and an option to an exclusive license for LB-001 for the treatment of methylmalonic acidemia (MMA) in designated areas pursuant to the license agreement. LB-001 is an investigational in-vivo gene editing technology based on GeneRide™ platform, which is designed to precisely integrate corrective genes into albumin locus of the hepatocytes of patients to provide a durable therapeutic effect.

CAUTIONARY STATEMENT REQUIRED BY RULE 18A.08(3) OF THE LISTING RULES: THE COMPANY CANNOT GUARANTEE THAT IT WILL BE ABLE TO DEVELOP, OR ULTIMATELY MARKET, ANY OF THE PRODUCTS IN ITS PIPELINE SUCCESSFULLY. SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY ARE ADVISED TO EXERCISE DUE CARE WHEN DEALING IN THE SHARES OF THE COMPANY.

Corporate Development

- On April 26, 2021, we entered into a strategic collaboration and licensing agreement with LogicBio Therapeutics, Inc. (“**LogicBio**”), wherein LogicBio granted to us (i) a worldwide, royalty-bearing, sublicensable through multiple tiers (subject to certain conditions), exclusive license to certain LogicBio patents and know-how to develop, manufacture and commercialize gene therapy candidates for two targets for the treatment of Fabry and Pompe diseases, such LogicBio patents and know-how being inclusive of LogicBio’s adeno-associated virus (AAV) sL65, a capsid produced from the LogicBio sAAV™ platform; (ii) options for the development of AAV sL65-based treatments for two additional targets; and (iii) an option to obtain an exclusive, royalty-bearing, sublicensable through multiple tiers (subject to certain conditions) license to LogicBio patents and know-how to LB-001, an investigational in-vivo gene editing technology based on GeneRide™ platform for the potential treatment of methylmalonic acidemia (MMA), in Greater China (collectively, the “**LogicBio Licensed Products**”).

MANAGEMENT DISCUSSION AND ANALYSIS

- On April 28, 2021, we entered into a license agreement with Mirum, wherein Mirum granted to us an exclusive, royalty-bearing, sublicensable (subject to certain conditions) license to certain Mirum licensed know-how and patents to develop, manufacture and commercialize maralixibat, an investigational, orally administered medication, and pharmaceutical products containing maralixibat for development in several indications including ALGS, PFIC and BA, within the licensed territory of Greater China for ALGS, PFIC and BA.
- In October 2021, we entered into a research collaboration and license agreement with Scriptr Global, Inc., for the development of a gene therapy treatment targeting dystrophinopathies. CANbridge will gain exclusive worldwide rights to develop, manufacture and commercialize a gene therapy candidate for the treatment of dystrophinopathies, using Scriptr Global's Stitchr™ platform, a proprietary ribozyme-mediated RNA assembly technology. Scriptr Global will be responsible for research, while CANbridge will assume all responsibilities for development, manufacturing, regulatory, and commercialization.
- In November 2021, we entered into a two-year sponsored research agreement with the University of Washington School of Medicine, in Seattle, Washington, for gene therapy research in Duchenne muscular dystrophy (DMD), a rare neuromuscular disease. The program will be under the direction of Jeffrey Chamberlain, Ph.D., professor in the Departments of Neurology, Medicine and Biochemistry, the McCaw Endowed Chair in Muscular Dystrophy at the University of Washington School of Medicine, and Director of the Senator Paul D. Wellstone Muscular Dystrophy Specialized Research Center of Seattle. Guy Odom, Ph.D., Research Assistant Professor in the Department of Neurology at the University of Washington, will serve as the co-principal investigator.
- In December 2021, we signed a letter of intent collaboration on rare disease research agreement with the Peking Union Medical College Hospital. Under terms of the agreement, the two parties will leverage their respective strengths to collaborate on the research and development in drug innovation, translational medicine and clinical trials for rare diseases, further enhance the research and development of innovative drugs for rare diseases and facilitate the medical research, study and commercialization of rare disease treatment.
- Our collaboration with the distributor for Nerlynx® (CAN030) for mainland China was terminated by the end of March 2021. Our commercialization right of Nerlynx® (CAN030) in Greater China was granted by Puma Biotechnology, Inc. (Nasdaq: PBYI) ("**Puma**") under a collaboration and license agreement in January 2018. In February 2021, we have reached an agreement with Puma to terminate such license agreement and Puma has agreed with Pierre Fabre Médicament SAS ("**Pierre Fabre**") to transfer the exclusive commercialization right of Nerlynx® (CAN030) in Greater China to Pierre Fabre. We have simultaneously entered into a distribution agreement with Pierre Fabre pursuant to which Pierre Fabre appointed us as its distributor with exclusive rights to sell Nerlynx® (CAN030) for Pierre Fabre in Hong Kong, Macau, and Taiwan until December 31, 2022, with an option to renew.

MANAGEMENT DISCUSSION AND ANALYSIS

Manufacturing

We have secured manufacturing capacity for selected in-licensed programs, including from third party collaboration partners such as WuXi Biologics, GC Pharma and LogicBio Therapeutics. We are also entitled to the transfer of all relevant manufacturing technologies with respect to the product for development by our third party partners, including but not limited to an upstream process and a downstream affinity purification process. We aim to balance cost-efficiency and control over quality of our drug products and will establish our in-house process development and manufacturing infrastructures. In an effort to scale up our gene therapy development, we are in the process of building our AAV process development lab in Greater Boston, which is expected to be opened in 2022, primarily for the manufacturing our gene therapy products. In addition, we plan to establish our manufacturing facilities in Suzhou, which is designed to comply with current Good Manufacturing Practices (cGMP) with several production lines mainly for supporting the production of CAN008 and other pipeline products.

Commercialization

With our late-stage drug candidates entering into the commercialization stage, we have established our key operation hubs in both Beijing and Shanghai with offices in other locations in Greater China, and plan to expand to each of the key target provinces with local offices in mainland China. We have already set up a commercialization team dedicated to our late-stage drug candidates that can be quickly expanded in line with our business growth to over 300 members to cover the China market for rare diseases in the next five years, comprising three major functions including marketing and sales, medical affairs and patient advocacy and assistance, with the mission to execute medical engagement plan for key opinion leader (KOL) development, promote community awareness and explore industry insights for better drug development and marketing strategy.

KEY EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, the Company has no key events after the Reporting Period that need to be brought to the attention of the shareholders of the Company.

THE IMPACT OF COVID-19

The management of the Company expected that clinical trials in and outside mainland China will not be significantly affected by the outbreak of COVID-19. The Directors believe that, based on the information available as of the date of this report, the outbreak of COVID-19 would not result in a material disruption to the Group's business operations or a material impact on the financial position or financial performance of the Group. Due to the outbreak of COVID-19, we have taken various measures, including but not limited to reducing face-to-face meetings by means of telephone or video conferences; avoiding unnecessary travels and trips for interviews as well as providing face masks, hand sanitizers and other sanitation supplies.

FINANCIAL REVIEW

Overview

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

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our revenue increased by RMB19.2 million from RMB12.0 million for the year ended December 31, 2020 to RMB31.2 million for the year ended December 31, 2021, which was primarily attributable to the commercialization of Nerlynx® (CAN030) in mainland China in November 2020 and in Taiwan in December 2020. The revenue increase was also driven by the commercialization of Hunterase® (CAN101) in mainland China in May 2021.

Cost of Sales

Our cost of sales increased by RMB7.2 million from RMB5.2 million for the year ended December 31, 2020 to RMB12.4 million for the year ended December 31, 2021, which was primarily attributable to the increase in sales of commercialized products.

Gross Profit and Gross Profit Margin

Our Gross profit increased by RMB11.9 million from RMB6.9 million for the year ended December 31, 2020 to RMB18.8 million for the year ended December 31, 2021. Our gross profit margin for the year ended December 31, 2021 was 60.3% (2020: 57.2%).

Other Income and Gains

Our other income and gains increased by RMB12.0 million from RMB1.4 million for the year ended December 31, 2020 to RMB13.4 million for the year ended December 31, 2021, which was primarily attributable to the gain on disposal of our license rights in Nerlynx® (CAN030) as we strategically shift our business focus to rare disease and rare oncology.

Selling and Distribution Expenses

Our selling and distribution expenses increased by RMB49.7 million from RMB51.0 million for the year ended December 31, 2020 to RMB100.7 million for the year ended December 31, 2021. Such increase was primarily attributable to (i) increased staff costs due to the expansion of commercial team; and (ii) our increased marketing expenses which was in line with increased marketing research and marketing activities for Hunterase® (CAN101) and other pipeline candidates and products.

Administrative Expenses

Our administrative expenses increased by RMB67.8 million from RMB77.7 million for the year ended December 31, 2020 to RMB145.5 million for the year ended December 31, 2021. Such increase was primarily attributable to (i) increased staff costs due to headcount increase and new grant of share options; (ii) increased professional service fees with regard to our financing activities and business development activities; and (iii) increased listing expenses from RMB8.6 million for the year ended December 31, 2020 to RMB37.2 million for the year ended December 31, 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development Expenses

Our research and development expenses increased by RMB318.1 million from RMB109.6 million for the year ended December 31, 2020 to RMB427.7 million for the year ended December 31, 2021. Such increase was primarily due to (i) increased license fees from RMB24.0 million for the year ended December 31, 2020 to RMB213.8 million for the year ended December 31, 2021, (ii) increased staff costs from RMB29.0 million for the year ended December 31, 2020 to RMB53.2 million for the year ended December 31, 2021 as a result of increase in headcount and share option expenses, (iii) increased testing and clinical trial expenses from RMB39.2 million for the year ended December 31, 2020 to RMB136.8 million for the year ended December 31, 2021 due to more contract research organization (CRO) and Chemistry, Manufacturing, and Controls (CMC) activities carried out for our pipeline candidates in the year ended December 31, 2021 as compared with the year ended December 31, 2020.

	For the year ended December 31,	
	2021 RMB'000	2020 RMB'000
Research and development expenses		
Staff costs	53,176	29,006
Travel and business related expenses	2,334	1,257
Technical service fees	18,470	13,222
Testing and clinical trial expenses	136,773	39,249
License fees	213,793	24,030
Other expenses	3,112	2,878
Total	427,658	109,642

Fair Value Changes of Convertible Redeemable Preferred Shares

Our fair value changes of convertible redeemable preferred shares decreased by RMB129.0 million from a loss of RMB591.4 million for the year ended December 31, 2020 to a loss of RMB462.4 million for the year ended December 31, 2021, which was in line with the changes in our Company's valuation.

Such loss on the fair value changes of convertible redeemable preferred shares was a non-cash and non-recurring adjustment recognised as of the Listing Date. As all the preferred shares were converted to ordinary shares upon the Listing Date, the Group will not incur any additional losses related to the fair value changes of the convertible redeemable preferred shares.

Finance Costs

Our finance costs decreased from RMB3.9 million for the year ended December 31, 2020 to RMB3.1 million for the year ended December 31, 2021. Such decrease was primarily in line with the decrease in our interest-bearing bank loans.

MANAGEMENT DISCUSSION AND ANALYSIS

Non-IFRS Measures

In addition to the Group's consolidated financial statements, which are presented in accordance with IFRS, the Company also uses adjusted loss for the year as an additional financial measure, which is not required by, or presented in accordance with IFRS. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impacts of items that we do not consider indicative of our performance results. The Company believes that these adjusted measures provide additional information to investors and others, helping them to understand and evaluate our consolidated results of operations in the same manner as our management, and thus, facilitate comparisons of operating performance from period to period and company to company to the extent applicable.

We define adjusted loss for the year as loss for the year excluding the effect of share-based payment expenses, listing expenses and non-cash items and one-time events, namely fair value changes on convertible redeemable preferred shares and fair value changes of derivative financial instruments. 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 table below sets forth a reconciliation of the adjusted loss for the year during the years indicated:

	For the year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Loss for the year	(1,077,006)	(846,043)
Add:		
Loss on fair value changes of convertible redeemable preferred shares	462,436	591,385
Loss/(gain) on fair value changes of derivative financial instruments	(34,454)	20,746
Share-based payment expenses	30,510	14,655
Listing expenses	37,192	8,641
Adjusted loss for the year	(581,322)	(210,616)

Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

On December 10, 2021, 56,251,000 shares of USD0.00001 each were issued at a price of HKD12.18 per share in connection with the Company's listing on the Main Board of the Stock Exchange. The proceeds of HKD4,386.46 representing the par value, were credited to the Company's share capital. The remaining proceeds of HKD685,132,793.54, (before deduction of the legal and other professional fees in relation to the listing) were credited to the share premium account.

Our cash and cash equivalents as of December 31, 2021 were RMB745.8 million, of which RMB29.1 million, RMB368.5 million, RMB344.5 million and RMB3.7 million, were denominated in RMB, USD, HKD and TWD respectively, representing an increase of 106.7% as compared to RMB360.8 million as of December 31, 2020. The increase was primarily attributable to our pre-IPO financing in May 2021, the proceeds we received from our listing, and the proceeds from disposal of an intangible asset. Our primary uses of cash are to fund research and development efforts, milestone payments and working capital and other general corporate purposes.

Funding and Treasury Policy

For the year ended December 31, 2021, we funded our operations primarily through equity and debt financing. Going forward, after successful commercialization of one or more of our drug candidates, we expect to fund our operations in part with revenue generated from sales of our drug products. However, with the continuing expansion of our business and development of new drug candidates, we may require further funding through public or private equity offerings, debt financing and other sources.

Bank Loans and Other Borrowings

Our bank loans and other borrowings as of December 31, 2021 were RMB30.9 million (December 31, 2020: RMB34.0 million), of which RMB17.1 million and RMB13.8 million, were denominated in RMB and USD respectively, and carried fixed nominal interest rates ranging from 5.50% to 6.50% per annum. The decrease in bank loans and other borrowings was primarily due to the repayment of bank loans and other borrowings. Such bank loans are repayable within one year. For details on the maturity profile of our borrowings, please see note 25 to the financial statements of this annual report.

Current ratio

Current ratio (calculated by current assets divided by current liabilities) of the Group as at December 31, 2021 was 436.9% (December 31, 2020: 361.7%).

Gearing ratio

The gearing ratio (calculated by total interest-bearing borrowings divided by total assets) of the Group as at December 31, 2021 was 3.5% (December 31, 2020: 5.8%).

Foreign Currency Risk

We have transactional currency exposures. Certain of our cash and bank balances, trade receivables and other receivables and trade and other payables are denominated in non-functional currencies and exposed to foreign currency risk.

We currently do not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

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

Capital Expenditure and Commitments

The Group's capital expenditures in the year ended December 31, 2021 were primarily related to the purchase of property, plant and equipment and other intangible assets. In the year ended December 31, 2021, the Group incurred RMB8.5 million in relation to capital expenditures as compared to RMB153.5 million in the year ended December 31, 2020.

Charges on Group Assets

Pursuant to the agreements entered into by CANbridge Biomed Limited and CANbridge Care Pharma HongKong Limited, two subsidiaries of the Company, with SPD Silicon Valley Bank ("**SSVB**"), respectively, CANbridge Biomed Limited and CANbridge Care Pharma HongKong Limited have charged all of their assets in favour of SSVB by way of first fixed charge and floating charge as security for the payment of the bank borrowings from SSVB.

Saved as disclosed above, as of December 31, 2021, the Group did not have other charges over its assets.

Significant Investment Held

During the Reporting Period, the Group did not have any significant investments. Except for the expansion strategies disclosed in sections "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group does not have any specific plans for significant investments or acquisition of material capital assets or other businesses. The Group, however, will continue to identify portfolio expansion opportunities.

Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures

During the Reporting Period, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As at December 31, 2021, the Group had 183 employees. For details on our employees' remuneration policy, please refer to the section headed "Report of Directors – Human Resources" of this report.

Share Options

As at December 31, 2021, share options to acquire an aggregate of 46,345,180 shares of the Company, representing approximately 10.93% of the total issued share capital of the Company as at December 31, 2021, were outstanding under the 2019 Equity Incentive Plan adopted by the Company.

For further details on such 2019 Equity Incentive Plan of the Company, please refer to the section headed "Report of Directors – Pre-IPO Equity Incentive Plan" of this report.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Dr. James Qun Xue, Ph.D., M.B.A., aged 52, has served as Chairman of the Board, Director and Chief Executive Officer since the inception of our Company in January 2018 and was re-designated as an executive Director on June 21, 2021 and is a chairperson of Nomination and Corporate Governance Committee of the Company. Dr. Xue is the founder of our Company and has been actively involved in the business, strategy and operational management of our Group since its establishment.

Dr. Xue has over 22 years of experience in medical and pharmaceutical companies. Dr. Xue began his career as a scientist at Kosan Biosciences, Inc. from May 1998 to August 2000, where he dedicated himself to research in bioengineering. In 2002, Dr. Xue joined Genzyme Corporation, where he served in various positions with increasing responsibilities including, among others, the general manager of Genzyme China and senior director of business excellence, and accumulated extensive management experience there until 2011. Since June 2012, Dr. Xue has served as venture partner at Tullis Health Investors where he was principally responsible for providing advice on portfolio company investments and maintaining and enhancing company's brand and market position.

Dr. Xue is deputy director general of the China Alliance for Rare Disease (中國罕見病聯盟), deputy director of the Shanghai Foundation for Rare Disease. He has been the vice chair of the R&D committee of the China Pharmaceutical Innovation and Research Development Association (PhIRDA) since May 2016 and a member of the Leadership Council of the Joint Institute of Peking University Health Science Center and University of Michigan Medical School since August 2017. Dr. Xue has also been a member of BayHelix Group, a non-profit organization of business leaders with a mission to shape the growth of the life sciences and healthcare industry and a mentor of the Termeer Foundation, a nonprofit organization focused on connecting life science innovators and catalyzing the creation of new medicines.

Dr. Xue obtained his Bachelor of Science degree in pharmaceutical chemistry from Peking University School of Pharmacy in July 1992. He further obtained his Ph.D. in bioorganic chemistry from Brown University in April 1997. In addition, Dr. Xue received his postdoctoral degree in pharmaceutical chemistry and biochemistry from University of California in April 1998 and his Master of Business Administration from Darden School of Business, University of Virginia in May 2002.

NON-EXECUTIVE DIRECTORS

Dr. Kan Chen (陳侃), Ph.D., aged 40, was appointed as a Director in December 2020 and re-designated as a non-executive Director on June 21, 2021 and is a member of Audit Committee of the Company. Dr. Chen is responsible for participating in formulating our Company's corporate and business strategies.

Dr. Chen has been as a non-executive director of Antengene Corporation Limited (HKEX: 6996) since March 2021 and a non-executive director of Connect Biopharma Holdings Limited (NASDAQ: CNTB) since December 2020. Dr. Chen has also been serving as a director of Jiangsu Yahong Pharmaceutical Technology Co., Ltd. (江蘇亞虹醫藥科技股份有限公司) (SSE STAR MARKET : 688176), a company principally engaged in drug innovation with a focus on urinary system tumors and other serious diseases, and Abbisko Cayman Limited, a company principally engaged in research of small molecule new drugs, since October 2020 and from February 2020 to

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

June 2021, respectively. Dr. Chen has also been serving as associate and vice president and then as principal of Qiming Venture Partners, focusing on healthcare management, since February 2016. From September 2014 to January 2016, Dr. Chen had been the senior scientist of Janssen, Pharmaceutical Companies of Johnson & Johnson, responsible for drug discovery. From November 2012 to August 2014, he served as group leader of Jiangsu Hengrui Medicine Co., Ltd. (SHA: 600276) responsible for drug discovery. From September 2009 to October 2012, he served as research fellow of immunology research at Brigham and Women's Hospital of Harvard Medical School.

Dr. Chen received his Bachelor of Science degree in biological sciences from Fudan University in July 2004 and his Ph. D. degree in cell biology from Case Western Reserve University in January 2009.

Dr. Derek Paul Di Rocco, Ph.D., aged 41, was appointed as a Director in March 2020 and was re-designated as a non-executive Director on June 21, 2021 and is a member of Nomination and Corporate Governance Committee of the Company. Dr. Di Rocco is responsible for participating in formulating our Company's corporate and business strategies.

Dr. Di Rocco has served as the partner of RA Capital Management, L.P., or RA Capital, a multi-stage investment manager dedicated to evidence-based investing in healthcare and life sciences, since 2020 and was previously a principal from 2017 to 2020 and joined RA Capital in 2013. As representative of RA Capital, Dr. Di Rocco has served as a non-executive director for Achilles Therapeutics plc (NASDAQ: ACHL) since September 2019, Werewolf Therapeutics, Inc. (NASDAQ: HOWL) since December 2020, Connect Biopharma Holdings Limited (NASDAQ: CNTB) since August 2020, iTeos Therapeutics, Inc. (NASDAQ: ITOS) since March 2020 and of 89bio, Inc. (NASDAQ: ETNB) since March 2018, respectively.

Dr. Di Rocco received his bachelor's degree in biology from College of the Holy Cross in May 2002 and his Ph.D. degree in pharmacology from University of Washington in August 2009.

Mr. Xiao Le (樂霄), aged 33, was appointed as a Director on December 2020 and was re-designated as a non-executive Director on June 21, 2021 and is a member of Remuneration Committee of the Company. Mr. Le is responsible for participating in formulating our Company's corporate and business strategies.

Mr. Le currently has been serving as non-executive director of Ambrx Biopharma Inc. (NYSE: AMAM) since November 2020 and as director of corporate development and investment at WuXi AppTec (HKEX: 2359). Prior to that, Mr. Le served at 6 Dimensions Capital (previously known as Frontline BioVentures), a company whose principal business is equity investment, as an investment professional since May 2016.

Mr. Le received his bachelor's degree in chemical and biomolecular engineering from Johns Hopkins University in May 2013 and his masters' degree in finance from the Massachusetts Institute of Technology in June 2015.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. James Arthur Geraghty, aged 67, was appointed as an independent non-executive Director on July 18, 2018 and is a member of each of Audit Committee and Nomination and Corporate Governance Committee of the Company. Mr. Geraghty is responsible for supervising and providing independent judgment to our Board.

Mr. Geraghty has approximately 30 years' management experience in business development, strategy and operations. Mr. Geraghty was an entrepreneur in residence of Third Rock Ventures from May 2013 to December 2016, where he was responsible for company formation and governance. Prior to this, Mr. Geraghty served as the senior vice president responsible for strategy and business development at Sanofi S.A. between April 2011 and December 2012. Mr. Geraghty worked with Genzyme Corporation from 1992 to 2011, with his last position being the senior vice president responsible for international development. From 1993 to 2007, Mr. Geraghty served as the chairman of board and the chief executive officer for Genzyme Transgenics Corporation. Prior to that, Mr. Geraghty started his career at Bain Capital, responsible for healthcare strategy consulting. Mr. Geraghty has been the chairman of the board of Orchard Therapeutics (NASDAQ: ORTX) and Pieris Pharmaceuticals (NASDAQ: PIRS) since May 2018 and since November 2017, respectively. Mr. Geraghty has also served as an independent non-employee Director of Fulcrum Therapeutics (NASDAQ: PIRS) since October 2016, Voyager Therapeutics (NASDAQ: VYGR) since January 2014 and Idera Pharmaceuticals (NASDAQ: IDRA) since July 2013, respectively.

Mr. Geraghty received his bachelor's degree in psychology from Georgetown University and received his Juris Doctor degree from Yale University Law School in May 1980.

Dr. Richard James Gregory, Ph.D., aged 64, was appointed as an independent non-executive Director in April 2020 and is a chairperson of Remuneration Committee and member of Nomination and Corporate Governance Committee of the Company. Dr. Gregory is responsible for supervising and providing independent judgment to our Board.

Dr. Gregory has over 30 years' experience in research and development. Dr. Gregory has served as an independent non-employee director of Homology Medicines (NASDAQ: FIXX) since 2015 and is currently an independent director of ProMIS Neurosciences (TSX: PMN). Dr. Gregory was the executive vice president and the chief scientific officer of ImmunoGen Inc. from January 2015 to August 2019. Prior to that, since February 1989, Dr. Gregory had spent 25 years at Genzyme Corporation (NASDAQ: GENZ) in roles of increasing responsibility, including Vice President and senior Vice President, with his last position being the Head of Research and Development for Genzyme Sanofi. In early 1990s, he also worked with Canji, Inc., focusing on the field of molecular biology. In 1989, Dr. Gregory served as a postdoctoral fellow of the Worcester Foundation for Experimental Biology.

Dr. Gregory received his bachelor's degree in Science in Biochemistry from Virginia Polytechnic Institute and State University in June 1980 and his Ph.D. degree from University of Massachusetts Amherst in January 1986. Dr. Gregory has been a fellow of the American Institute for Medical and Biological Engineering since February 2010.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Peng Kuan Chan (陳炳鈞), aged 58, was appointed as an independent non-executive Director of the Company on June 11, 2021 and is a chairperson of Audit Committee and a member of Nomination and Corporate Governance Committee of the Company. Mr. Chan is responsible for supervising and providing independent judgment to our Board.

Mr. Chan has over 25 years of experience in corporate financing, investment banking, initial public offering, mergers and acquisitions as well as financial management. Mr. Chan has been serving as an independent non-executive director of Yincheng International Holding Co., Ltd. (HKEX: 1902) since February 2019 and an independent non-executive director of Yonghe Medical Group Co., Ltd. (雍禾醫療集團有限公司) (HKEX: 2279) since June 2021.

From October 2017 to May 2019, Mr. Chan was the chief financial officer of Elegance Optical International Holdings Ltd (HKEX: 0907), where he was responsible for corporate finance and financial management. Prior to this, from January 2012 to September 2017, Mr. Chan served as the chief operating officer of CITIC Merchant Co., Limited, responsible for formulating business strategies and executing business plans of the company.

Between January 2011 and November 2011, Mr. Chan served as Head of Asia CIG and Cleantech of Piper Jaffray Asia Limited. Mr. Chan served as the managing director of corporate finance – Great China coverage department, and an executive director of corporate finance department of BNP Paribas Capital (Asia Pacific) Limited from July 2006 to January 2011 and from March 2005 to June 2006, respectively. Between August 2000 and December 2004, Mr. Chan served as an executive director of Sanyuan Group Limited (三元集團有限公司), a company delisted from the Stock Exchange in December 2009 (stock code: 140) which principally engaged in property investment and bio-pharmaceuticals, with the mission of restructuring its business activities and materialising its debt restructuring plan. He served BNP Prime Peregrine Capital Limited from May 1994 to August 2000 where his last position was an executive director.

Mr. Chan received his bachelor's degree in commerce from University of Canterbury in May 1989 and received his master's degree in applied finance from Macquarie University in November 1998. He has been a Chartered Accountant of Chartered Accountants Australia and New Zealand since November 1992. He has been a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) since July 1993.

Dr. Lan Hu (胡瀾), aged 53, was appointed as an independent non-executive Director of the Company on February 16, 2022 and is a member of Remuneration Committee of the Company. Dr. Hu is responsible for supervising and providing independent judgment to our Board.

Dr. Hu has over 18 years of experience in healthcare investment, operations and administrative management. She served as the investment manager of JP Morgan Chase Bank from August 2002 to March 2004. She founded Beijing Amcare Women's & Children's Hospital Co., Ltd. (北京美中宜和婦兒醫院有限公司) in June 2004 and has been its director, chairman of the board and general manager. Since 2013, she has been the member of the 12th and 13th Beijing Municipal Committee of the Chinese People's Political Consultative Conference. She is currently serving as the chairman of the board and general manager of Beijing Amcare Medical Management Co., Ltd. (北京美中宜和醫療管理(集團)有限公司), the chairman of the board of Beijing Meizhong Airui Tumor Hospital Co., Ltd. (北京美中愛瑞腫瘤醫院有限責任公司), the independent director of Beijing Yida Shidai Technology Development Co., Ltd. (北京醫大時代科技發展有限公司) and the executive director and general manager of Beijing Xuanhe Yazhi Management Consulting Co., Ltd. (北京軒和雅致管理諮詢有限公司).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Hu obtained a bachelor's degree in medicine from Peking University in 1993. She further obtained a Ph.D. in medical sciences from Northeast Ohio Medical University in 2000 and a master's degree in business administration from University of Michigan in 2002.

SENIOR MANAGEMENT

Dr. James Qun Xue, aged 52, has served as Chairman of the Board, Director and Chief Executive Officer since the inception of our Company in January 2018 and was re-designated as an executive Director on June 21, 2021. Please see his biography under the paragraphs headed “– Executive Director” in this section.

Mr. Glenn Hassan, aged 44, was appointed as our Chief Financial Officer in April 2019. Mr. Hassan is responsible for overseeing the management of the Group's finances.

Before joining our Company, Mr. Hassan served as director, healthcare investment banking at China Renaissance Securities Inc. since August 2018, where he advised various cross-border healthcare investments and capital raising activities. Prior to this, he was a public market healthcare investor, serving as portfolio manager and senior analyst at Leerink Capital Partners from March 2016 to January 2018 and working at Citadel LLC's Surveyor Capital from June 2014 to February 2016. Mr Hassan started his investing career at Fidelity Management & Research Company where he served with increasing responsibilities from April 2008 to May 2014.

Mr. Hassan received his bachelor's degree of science in business with finance concentration from Indiana University in May 2002. Mr. Hassan further obtained his master's degree of science in global financial analysis and graduated with high distinction from McCallum Graduate School of Business, Bentley College in May 2004.

Dr. Yunxiang Zhu (朱雲祥), Ph.D., aged 58, was appointed as Vice President and Head of Global Research in September 2020. Dr. Zhu is responsible for overseeing overall business operations and company-wide budgeting and expense for R&D.

From May 2018 to September 2020, Dr. Zhu served as senior vice president at Shenogen Pharma Group, responsible for company strategy in drug discovery and development. Prior to that, from February 2001 to May 2018, he served over 17 years at Sanofi Genzyme, progressing through various positions including staff scientist (level II), senior scientist, principal scientist, fellow, distinguished fellow, and senior director in charge of muscle disease research. During this period, he was responsible for scientific research in specialty care. From August 1988 to August 1990, Dr. Zhu served as research associate at Fudan University.

Dr. Zhu received his bachelor's degree of science in chemistry from Zhejiang University in June 1984. Dr. Zhu further received his master of science in biochemistry from Shanghai Institute of Materia Medica in July 1988. He obtained his Ph.D. in cell biology from University of Miami School of Medicine in February 1996 and conducted his post-doctorate training in cell biology at Washington University School of Medicine from February 1996 to February 2001.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yijun Lu (陸義駿), aged 47, was appointed as General Manager of CANbridge China in November 2020. Mr. Lu is responsible for overseeing our commercial business operations in the PRC.

Before joining our Company, from April 2020 to November 2020, Mr. Lu served as head of hemophilia and rare disease at Takeda (China) Holdings Co. Ltd, where he led the launch and development of certain products related to rare diseases, such as Replagal, Vpriv, Takhzyro and Firazyr. From July 2018 and April 2019, Mr. Lu was the franchise head of hematology at Shire Bioscience (Shanghai) Co. Ltd., where he led the hemophilia business development in China. From April 2017 to July 2018, he served as head of value demonstration and access at Shire Bioscience (Shanghai) Co. Ltd., during which he received the CEO Award and the APAC Best Value Demonstration and Access Award. Mr. Lu also served as national sales head at Baxalta Bioscience (Shanghai) Co. Ltd. from January 2016 to April 2017 and as marketing manager at Baxter China Investment Co. Ltd. from February 2014 to December 2015. From October 2012 to February 2014, he served as associate marketing manager at Celgene Pharmaceutical (Shanghai) Co. Ltd. Since July 2011, he served as senior regional sales manager at Bayer Healthcare Company Ltd. Mr. Lu served at Beijing Novartis Pharma Ltd. as senior regional sales manager and regional sales manager from July 2006 to July 2011 and as senior district sales manager from February 2005 to July 2006. Before that, he served in the sales team at the Shanghai Representative Office of Eli Lilly Asia Inc. in 2002. From July 1996 to February 2000, Mr. Lu served as oncologist at Shanghai No. 1 People's Hospital.

Mr. Lu obtained his bachelor's degree in clinical medicine from Shanghai Jiaotong University School of Medicine in August 1996. He received his certificate of Beijing International MBA Course from Peking University in April 2009.

REPORT OF DIRECTORS

The Board is pleased to present this annual report together with the audited consolidated financial statements of the Group for the Reporting Period.

PRINCIPAL ACTIVITIES

The Group is a China-based, rare disease-focused biopharmaceutical company founded in 2012 that is committed to the research, development and commercialization of biotech therapies.

There were no significant changes in the nature of the Group's principal activities during the year ended December 31, 2021. Please refer to note 1 to the financial statements for details of the principal activities of the principal subsidiaries of the Group. An analysis of the Group's revenue and operating results for the year ended December 31, 2021 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and note 5 to the financial statements.

BUSINESS REVIEW

A review of the Group's business during the year ended December 31, 2021, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year ended December 31, 2021, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review and discussion form part of this Directors' report.

RESULTS AND DIVIDEND

The consolidated results of the Group for the Reporting Period are presented in the consolidated statement of profit or loss and consolidate statement of comprehensive income on page 80 and 81 of this annual report.

The Board does not recommend the payment of a final dividend in respect of the year ended December 31, 2021.

FINANCIAL SUMMARY

The Company's Shares were listed on the Stock Exchange on December 10, 2021. A summary of the published results and of the assets, liabilities and equity of the Group for the last three financial years, as extracted from the published audited financial information and financial statements, is set out on page 7 of this report.

REPORT OF DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the financial statements of this annual report.

KEY RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that various stakeholders including employees, customers, suppliers and others 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 believes that it is vital to attract, recruit and retain quality employees. The Group conducts new staff training regularly to guide new employees and help them adapt to the new working environment. In addition, the Group provides on-line and in-person formal and comprehensive company-level and department-level training to our employees periodically in addition to on-the-job training. The Group also encourages its employees to attend external seminars and workshops to enrich their technical knowledge and develop competencies and skills. The Group also provides training and development programs to our employees and external training sessions from time to time to improve their technical skills and ensure their awareness and compliance with our various policies and procedures.

For details of an account of the Company's key relationships with its employees, customers, suppliers and others that have a significant impact on the Company is set out in the environmental, social and governance report of the Company for the Reporting Period.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including environmental protection, health and safety, workplace conditions, employment and the environment.

The Group has implemented company-wide environmental, health and safety manuals, policies and standard operating procedures that include management systems and procedures relating to emissions of air, water and other media; waste water generation and treatment; process safety management; handling, use, storage, treatment and disposal of hazardous substances; worker health and safety requirements; third party safety management; emergency planning and response; and product stewardship.

Further details of the Group's environmental policies and performance will be disclosed in the environmental, social and governance report of the Company for the Reporting Period to be published in due course.

REPORT OF DIRECTORS

SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 26 to the financial statements of this annual report.

RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 84 of this annual report. Details of the movement in the reserves of the Company during the Reporting Period is set out in note 34 to the financial statements of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2021, the Company's reserves available for distribution from share premium less accumulated losses, calculated in accordance with the provisions of Companies Law of the Cayman Islands, amounted to approximately RMB2,246.2 million (2020: nil).

The Company may pay dividends out of the share premium account, retained earnings and any other reserves provided that immediately following the payment of such dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

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 period from the Listing Date to December 31, 2021.

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.

REPORT OF DIRECTORS

ISSUE OF EQUITY SECURITIES

The Company was listed by way of an initial public offering on the Hong Kong Stock Exchange on December 10, 2021. 56,251,000 ordinary shares of the Company were issued at a final offer price of HK\$12.18 per Share. For details of the Listing, please refer to the Prospectus and the announcement titled “Announcement of Allotment Results” of the Company dated December 9, 2021. There has been no issue for cash of equity securities by the Company from the Listing Date to the end of the Reporting Period.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares of the Company were listed on the Stock Exchange on December 10, 2021 and the Company obtained net proceeds of HKD604.0 million (after deducting the underwriting fees, commissions and estimated expenses payable by the Company in connection with the Global Offering). According to the plan on use of proceeds as set out in the Prospectus, the Company intends to use the net proceeds in the same matter and proportion as set out below:

- Approximately 45.4% will be allocated to fund the ongoing and future R&D (including planned clinical trials, preparation of registration filings and milestone fees), and CMC development and manufacturing of our Core Product candidate CAN008 (primarily including facilities under construction in Suzhou that will cover the process development and clinical trial materials production in GMP environment for CAN008; the clinical trial materials production can also be transferred to Suzhou facility from current CMO);
- Approximately 24.0% will be allocated to fund our major products and product candidates in our pipeline;
 - Approximately 4.3% is expected to fund the ongoing commercialization, post-approval study and milestone fees of Hunterase® (CAN101);
 - Approximately 12.6% is expected to fund the ongoing and future R&D (including ongoing and planned clinical trials in Singapore and China, preparation of registration filings and milestone fees) of CAN106, targeting paroxysmal nocturnal hemoglobinuria (PNH) and various other complement mediated diseases that are targeted by approved anti-C5 antibodies;
 - Approximately 3.6% is expected to fund the ongoing and future R&D (including ongoing and planned clinical trials, preparation of registration filings and milestone fees) of CAN103;
 - Approximately 3.5% is expected to fund the ongoing and future R&D (including ongoing and planned clinical trials, preparation of registration filings and milestone fees) and future commercial launches (including sales and marketing) of CAN108;

REPORT OF DIRECTORS

- Approximately 1.8% will be allocated to fund ongoing and future R&D (including ongoing and planned clinical trials, preparation of registration filings and milestone fees) of other non-gene therapy products and product candidates in our pipeline;
- Approximately 12.0% is expected to fund the ongoing and future R&D (including ongoing and planned clinical trials, preparation of registration filings and milestone fees) of CAN201, CAN202 and our other gene therapy programs;
- The remaining 16.8% of the net proceeds will be allocated to fund the R&D and other general business purposes
 - Approximately 7.2% will be allocated to develop our R&D and manufacturing facilities in both China and the U.S. for all our products and drug candidates, and potential office and site expansion and upgrade in China and the U.S. The proceeds allocated to the R&D and manufacturing facilities in China under this item refers to the costs associated with the facilities under construction in Suzhou that will be used to develop and manufacture our products and drug candidates other than CAN008. There is no overlap of the use of proceeds for R&D and manufacturing facilities under this item and CMC development and manufacturing of CAN008;
 - Approximately 1.3% will be allocated to our other R&D activities including employment costs in both China and the U.S.;
 - Approximately 3.0% will be allocated for potential strategic acquisitions, investments, in-licensing or collaborations. We do not have any concrete acquisition target but plan to explore drug candidates in the rare disease and gene therapy area which may be complimentary to our current drug portfolio;
 - Approximately 1.0% will be used for our commercialization activities, including expanding our sales and marketing team; and
 - Approximately 4.3% will be used for our working capital and general corporate purposes.

REPORT OF DIRECTORS

During the period from the Listing Date to December 31, 2021, the Company has not utilized any of the net proceeds raised from the Global Offering. The table below sets forth a detailed breakdown and description of the use of net proceeds from the listing of the Company to the date of this report:

	Use of proceeds in the same manner and proportion as stated in the Prospectus	Actual use of proceeds as at the end of the Reporting Period	Net proceeds unutilized as at the end of the Reporting Period
	HKD in million	HKD in million	HKD in million
Approximately 45.4% to fund ongoing and future R&D (including planned clinical trials, preparation of registration filings and milestone fees), and CMC development and manufacturing of our Core Product candidate CAN008 (primarily including facilities under construction in Suzhou that will cover the process development and clinical trial materials production in GMP environment for CAN008; the clinical trial materials production can also be transferred to Suzhou facility from current CMO)	274.2	–	274.2
Approximately 24.0% will be allocated to fund our major products and product candidates in our pipeline	144.9	–	144.9
Approximately 1.8% to fund ongoing and future R&D (including ongoing and planned clinical trials, preparation of registration filings and milestone fees) of other non-gene therapy products and product candidates in our pipeline	10.9	–	10.9
Approximately 12.0% to fund the ongoing and future R&D (including ongoing and planned clinical trials, preparation of registration filings and milestone fees) of CAN201, CAN202 and our other gene therapy programs	72.5	–	72.5
The remaining 16.8% of the net proceeds will be allocated to fund the R&D and other general business purposes	101.5	–	101.5
Total	604.0	–	604.0

Note:

It is expected that the Company will fully utilize the net proceeds raised from the Global Offering by the end of 2023.

REPORT OF DIRECTORS

DIRECTORS

As at the date of this report, the Board consisted of the following 8 Directors:

Executive Director

Dr. James Qun Xue (*Chairman and Chief Executive Officer*)

Non-executive Directors

Dr. Kan Chen

Dr. Derek Paul Di Rocco

Mr. Xiao Le

Independent Non-executive Directors

Dr. Richard James Gregory

Mr. James Arthur Geraghty

Mr. Peng Kuan Chan

Dr. Lan Hu

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out in the section headed “Biographies of Directors and Senior Management” of this annual report.

CHANGE OF INFORMATION OF DIRECTORS

- A. Mr. Peng Kuan Chan has been appointed as an Independent Non-executive Director of Yonghe Medical Group Co., Ltd (stock code: 2279) on June 1, 2021.
- B. Changes below with effect from February 16, 2022:
 - (1) Dr. Lan Hu has been appointed as an Independent Non-executive Director of the Company and a member of the Remuneration Committee;
 - (2) Mr. James Arthur Geraghty has ceased to be the member of the Remuneration Committee and has been appointed as a member of the Audit Committee; and
 - (3) Dr. Richard James Gregory has ceased to be a member of the Audit Committee.

Saved as disclosed in this report and as at the date of this report, there are no other changes to the Directors’ and Senior Management’s information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

REPORT OF DIRECTORS

DIRECTORS' SERVICE CONTRACTS

The Executive Director and each of the Non-executive Directors has entered into a service contract with the Company under which the initial term of their respective service contract shall commence from the date of their appointment until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice. Each of the Independent Non-executive Directors has entered into an appointment letter with the Company effective from the date of the Prospectus, being November 30, 2021, except that Dr. Lan Hu has entered into an appointment letter with the Company effective from February 16, 2022. The initial term of their appointment letters shall commence from the date of their appointment for a period of three years (subject always to re-election as and when required under the Articles of Association) 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.

Save as disclosed above, none of the Directors has entered into any service contract with the Company or any of its subsidiaries not determinable by the Company within one year without payment of compensation, other than statutory compensation.

CONTRACT WITH SUBSTANTIAL SHAREHOLDERS

Save for the cornerstone investment agreement dated November 24, 2021 entered into among the Company, RA Capital Healthcare Fund, L.P., Morgan Stanley Asia Limited and Jefferies Hong Kong Limited, pursuant to which RA Capital Healthcare Fund, L.P. agreed to subscribe for Shares in the Company as part of the Global Offering, details of which are included in the Prospectus, no contract of significance was entered into between the Company or any of its subsidiaries and the substantial shareholders or any of its subsidiaries during the period of the Listing Date to December 31, 2021 or subsisted at December 31, 2021 and no contract of significance for the provision of services to the Company or any of its subsidiaries by a substantial shareholder or any of its subsidiaries was entered into during the period of the Listing Date to December 31, 2021 or subsisted at December 31, 2021.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement and contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or any entity connected with such a Director had a material interest, whether directly or indirectly, subsisted at December 31, 2021 or at any time from the period of the Listing Date to December 31, 2021.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management receive compensation in the form of fees, salaries, bonuses, other allowances, benefits in kind, contribution to the pension scheme and other share-based compensation. The compensation of Directors and senior management is determined based on each Director and senior management's responsibilities, qualification, position and seniority. Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in note 8 and note 9 to the financial statements of this annual report.

For the Reporting Period, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended December 31, 2021.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2021, by our Group to or on behalf of any of the Directors.

REPORT OF DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Since the Listing Date and up to December 31, 2021, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a Director of the Company and/or its subsidiaries.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

NON-COMPETITION ARRANGEMENTS

No non-competition agreements or arrangement has been provided by the substantial shareholders as at December 31, 2021 or at any time during the Reporting Period.

MANAGEMENT CONTRACTS

Other than the Directors and senior managements' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at December 31, 2021 or at any time during the period from the Listing Date to December 31, 2021.

EQUITY-LINKED AGREEMENTS

Apart from the Pre-IPO Equity Incentive Plan, Post-IPO RSU Scheme and Post-IPO Share Option Scheme, the Company has not entered into any equity-linked agreement during the Reporting Period.

PRE-IPO EQUITY INCENTIVE PLAN

In April 2016, the board of directors of CANbridge Life Sciences approved an equity incentive plan, under which 1,250,000 shares of CANbridge Life Sciences were reserved for granting options to its employees (the "**CANbridge Beijing Equity Incentive Plan**").

Pursuant to a resolution passed by the Board on July 25, 2019, the 2019 equity incentive plan (the "**Pre-IPO Equity Incentive Plan**") was adopted to inherit and replace the CANbridge Beijing Equity Incentive Plan and Shares were granted under the Pre-IPO Equity Incentive Plan to replace the shares of CANbridge Life Sciences previously granted. The terms of the Pre-IPO Equity Incentive Plan are not subject to the provisions of Chapter 17 of the Listing Rules as they (i) do not involve any grant of options by our Company to subscribe for new Shares after the Listing and (ii) only involves the grant of restricted shares after the Listing.

The following is a summary of the principal terms of the Pre-IPO Equity Incentive Plan.

REPORT OF DIRECTORS

(a) Summary of terms

Purpose. The purpose of the Pre-IPO Equity Incentive Plan is to provide incentives to Directors and employees of the Company or any other third party that the Board considers as contributed or will contribute to the Company. The Pre-IPO Equity Incentive Plan allow our Company to provide such persons with opportunities to (i) acquire Shares of the Company pursuant to options granted, (ii) receive restricted share units and (iii) purchase restricted shares (collectively, the “**Awards**”).

Eligible Participants. Any Director and employee of the Company, or any advisor, consultant, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner, service provider or other third parties who the Board considers, in its sole discretion, has contributed or will contribute to the Company are eligible to participate in the Pre-IPO Equity Incentive Plan. Reference factors for the selection of participants include: (i) the Company’s long-term development strategy; (ii) the status of the Company’s business development; (iii) the Company’s human resources strategy; (iv) the functional characteristics of the participant’s position; (v) the length of service of the participant; and (vi) the job performance of the participant.

Duration. Unless terminated sooner in accordance with the terms of the Pre-IPO Equity Incentive Plan, the Pre-IPO Equity Incentive Plan will continue in effect, with regard to the making of Awards, for a term of ten years from their respective effective date. Awards granted during the term of the Pre-IPO Equity Incentive Plan may continue to be valid and exercisable in accordance with their terms of grant.

Maximum Number of Shares. As at the Listing Date, the maximum number of Shares that may be subject to the Awards granted and sold under the 2019 Equity Incentive Plan is 54,549,230 Shares and Share Options (including those have subsequently lapsed or been fully exercised) to subscribe for 55,708,000 Shares thereof had been granted. No Share Options were granted from the Listing Date to the end of the Reporting Period. As at December 31, 2021, (i) Share Options to subscribe for 2,502,770 Shares had lapsed following the resignation of certain grantees; (ii) Share Options corresponding to 6,860,050 Shares had been exercised; and (iii) Share Options corresponding to the remaining 46,345,180 Shares were outstanding. No Shares remain available for grant under the Pre-IPO Equity Incentive Plan as at December 31, 2021. At all times during the term of the Pre-IPO Equity Incentive Plan and while any Awards are outstanding, the Company will retain as authorized and unissued Shares at least the number of Shares from time to time required to satisfy the terms of the Pre-IPO Equity Incentive Plan and such Awards, or otherwise assure itself of its ability to perform its obligations thereunder.

Administration. The Pre-IPO Equity Incentive Plan will be administered by the Board. The Board will be responsible for the approval, amendment to and termination of the Pre-IPO Equity Incentive Plan, as well as other major decisions such as determining the types of Awards to be granted, determining the number of Shares or restricted share units to be covered by each Award granted, approving the forms of Award agreements, determining the performance review targets for the eligible participants and determining the terms and conditions of any Award. A committee will be appointed by the Board to be responsible for the actual implementation of the Pre-IPO Equity Incentive Plan.

Awards. Grant of Awards shall be made in accordance with the Pre-IPO Equity Incentive Plan and in compliance with applicable laws and regulations. Each recipient of an Award shall enter into an Award agreement and any other agreements as determined by the Board. The date of grant of an Award shall be determined by the Company and the recipient at the execution of the Award agreement. The term of each option, restricted share unit or other Award will be stated in the Award agreement.

(i) Options. Subject to terms stating otherwise in the relevant Award agreement or as otherwise determined by the Board, the exercise price for Shares to be issued upon exercise of an option granted under the Pre-IPO Equity Incentive Plan is as below:

REPORT OF DIRECTORS

For the pool of 1,250,000 Shares reserved under the 2019 Equity Incentive Plan to substitute the shares of CANbridge Life Sciences previously granted under the CANbridge Beijing Equity Incentive Plan

Time of Grant	Exercise Price
Within 2014	RMB1 or fair market value or otherwise determined by the Board
Within 2015	RMB1.5 or fair market value or otherwise determined by the Board
Within 2016	No less than the corresponding portion of the Company's net asset by the end of 2015 or fair market value or otherwise determined by the Board
Within 2017	No less than the corresponding portion of the Company's net asset by the end of 2016 or fair market value or otherwise determined by the Board
Within 2018	No less than the corresponding portion of the Company's net asset by the end of 2017 or fair market value or otherwise determined by the Board
Within 2019 or onwards	No less than the corresponding portion of the Company's net asset by the end of 2018 or fair market value or otherwise determined by the Board

For the remaining pool of 4,204,923 Shares under the 2019 Equity Incentive Plan

Time of Grant	Exercise Price
Within 2019 or onwards	No less than 50% of the last round financing of the Company or fair market value or otherwise determined by the Board

(ii) Restricted share units and restricted shares. Under the 2019 Equity Incentive Plan, unless otherwise determined by the Board, for awards or restricted share units and restricted shares made within 2019 or onwards, the price to be paid for the granting of restricted share units and the purchase price of restricted shares will be no less than 50% of the last round financing of the Company or fair market value or otherwise determined by the Board.

The consideration to be paid for Shares to be issued upon exercise of an option granted, the granting of a restricted share unit, or the purchase of restricted shares, including the method of payment, will be determined by the Board.

Vesting. Options granted will become vested and exercisable, any restricted share units granted will vest and be settled, and any restricted shares issued pursuant to the Pre-IPO Equity Incentive Plan will be released and no longer be subject to forfeiture or a right of repurchase by the Company, according to the terms set out in the Pre-IPO Equity Incentive Plan, and under such conditions as determined by the Board and set forth in an Award agreement.

REPORT OF DIRECTORS

(b) Outstanding Share Options granted under the Pre-IPO Equity Incentive Plan

As at the Listing Date, our Company had granted Share Options under the Pre-IPO Equity Incentive Plan to 172 grantees to subscribe for an aggregate of 55,708,000 Shares (including grantees whose Shares Options have subsequently lapsed or been exercised). No Share Options were granted from the Listing Date to the end of the Reporting Period. As at December 31, 2021, Share Options to subscribe for 2,502,770 Shares had lapsed following the resignation of certain grantees and Share Options corresponding to 6,860,050 Shares had been exercised. Accordingly, as of December 31, 2021, Share Options to acquire an aggregate of 46,345,180 Shares, representing approximately 10.93% of the total issued share capital of the Company, were outstanding under the Pre-IPO Equity Incentive Plan.

As of December 31, 2021, the grantees of outstanding Share Options under the Pre-IPO Equity Incentive Plan include Dr. Xue as our CEO and 3 other Directors, 9 consultants and 151 other employees of our Group. Below is a list of grantees of outstanding Share Options (excluding lapsed and exercised Share Options) under the Pre-IPO Equity Incentive Plan. No Share Option under the Pre-IPO Equity Incentive Plan has been granted to other connected persons of the Company and no consideration was paid for the Share Options granted.

Name of grantee	Position held within our Group	Exercise price (per share)	Number of Shares underlying the outstanding Share Options as of the Listing Date	Date of grant <small>(Note 5)</small>	Vesting period <small>(Note 4)</small>	Number of Shares exercised from the Listing Date to December 31, 2021	Number of Shares cancelled/lapsed from the Listing Date to December 31, 2021	Number of Shares underlying the outstanding Share Options as of December 31, 2021
DIRECTORS								
James Qun Xue	Chairman of the Board, executive Director and Chief Executive Officer	USD0.185	620,280	October 17, 2018	<i>(Note 1)</i>	-	-	620,280
		USD0.52	3,861,140	October 17, 2018	<i>(Note 1)</i>	-	-	3,861,140
		USD1.179	5,000,000	June 11, 2021	<i>(Note 1)</i>	-	-	5,000,000
James Arthur Geraghty	Independent non-executive Director	RMB0.622	50,000	December 31, 2018	<i>(Note 2)</i>	-	-	50,000
		USD0.589	1,000,000	July 25, 2019	<i>(Note 1)</i>	-	-	1,000,000
		USD1.179	250,000	June 11, 2021	<i>(Note 1)</i>	-	-	250,000
Richard James Gregory	Independent non-executive Director	USD0.706	300,000	April 7, 2020	<i>(Note 3)</i>	-	-	300,000

REPORT OF DIRECTORS

Name of grantee	Position held within our Group	Exercise price (per share)	Number of Shares underlying the outstanding Share Options as of the Listing Date	Date of grant <i>(Note 5)</i>	Vesting period <i>(Note 4)</i>	Number of Shares exercised from the Listing Date to December 31, 2021	Number of Shares cancelled/lapsed from the Listing Date to December 31, 2021	Number of Shares underlying the outstanding Share Options as of December 31, 2021
Peng Kuan Chan	Independent non-executive Director	USD0.753	250,000	June 11, 2021	<i>(Note 1)</i>	-	-	250,000
9 CONSULTANTS		0 ~ USD1.179	3,500,630	May 1, 2013 - November 8, 2021	<i>(Note 1)</i>	-	-	3,500,630
151 OTHER EMPLOYEES OF THE GROUP		RMB0.1 ~ USD1.179	32,717,130	August 7, 2013 ~ November 8, 2021	Six months from date of grant to five years from date of grant	-	1,204,000	31,513,130
Total:			47,549,180					46,345,180

Notes:

- The vesting schedule for these options is: (i) 25% to be vested one year from the date of grant and (ii) 75% to be vested in equal monthly installments over the subsequent 36 months thereafter.
- The vesting schedule for these options is: 100% to be vested in equal monthly installments over the 30 months from the date of grant.
- The vesting schedule for these options is: 100% to be vested in equal monthly installments over the 36 months from the date of grant.
- The vesting period refers to the period that the share options are vested while the exercise period of the share options as disclosed in the Accountants' Report in Appendix I to this prospectus refers to the period that the vested share options can be exercised.
- The share closing price immediately before the date of grant of the Share options are not applicable as the Share Options were granted before the Listing Date.

REPORT OF DIRECTORS

(c) Restricted share units and restricted shares

As at the December 31, 2021, no restricted share units or restricted shares have been granted under the Pre-IPO Equity Incentive Plan.

Further details of the Pre-IPO Equity Incentive Plan are set out in the Prospectus.

POST-IPO RSU SCHEME

The Company has conditionally adopted the Post-IPO RSU Scheme by Shareholders' resolutions dated November 18, 2021. The Post-IPO RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the Post-IPO RSU Scheme does not involve the grant of options by our Company. The Company may appoint a trustee (the "**RSU Trustee**") to administer the Post-IPO RSU Scheme with respect to the grant of any Award (as defined below), by way of restricted share unit(s) ("**RSU(s)**"), which may vest in the form of Shares (the "**Award Shares**") or the actual selling price of the Award Shares in cash in accordance with the Post-IPO RSU Scheme.

1. Eligible Persons to the Post-IPO RSU Scheme

Any individual, being an employee, director (including executive Directors, non-executive Directors and independent non-executive Directors) or officer, consultant or advisor of any member of the Group or any affiliate (including nominees and/or trustees of any employee benefit trust established for them) (an "**Eligible Person**" and, collectively "**Eligible Persons**") who the Board considers, in its sole discretion, to have contributed or will contribute to the Group or any affiliate is eligible to receive an award granted by the Board (an "**Award**"), by way of RSUs, which may vest in the form of Award Shares or the actual selling price of the Award Shares of RSUs in cash in accordance with the Post-IPO RSU Scheme.

2. Purpose of the Post-IPO RSU Scheme

The purpose of the Post-IPO RSU Scheme is to align the interests of Eligible Persons' with those of our Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of our Group.

3. Awards

An Award gives a selected participant a conditional right, when the RSU vests, to obtain the Award Share or, if in the absolute discretion of the Board, it is not practicable for the selected participant to receive the Award in Shares, the cash equivalent from the sale of the Award Shares. For the avoidance of doubt, the Board at its discretion may from time to time determine that any dividends declared and paid by our Company in relation to the Award Shares be paid to the selected participant even though the Award Shares have not yet vested.

4. Maximum Number of Shares to be Granted

The aggregate number of Shares underlying all grants made pursuant to the Post-IPO RSU Scheme (excluding Award which have been forfeited in accordance with the Post-IPO RSU Scheme) will not exceed 5% of the issued share capital of the Company as of the date of approval of the Post-IPO RSU Scheme without Shareholders' approval (the "**Post-IPO RSU Scheme Limit**"), further subject to an annual limit of 5% of the total number of issued share capital of the Company at the relevant time.

REPORT OF DIRECTORS

5. Vesting of Awards

The Board may from time to time while the Post-IPO RSU Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the Award to be vested.

6. Termination

The Post-IPO RSU Scheme shall terminate on the earlier of:

- (i) the end of the period of ten years commencing on the date on which this scheme is adopted except in respect of any non-vested RSUs granted hereunder prior to the expiration of the Post-IPO RSU Scheme, for the purpose of giving effect to the vesting in the form of Award Shares of such RSUs or otherwise as may be required in accordance with the provisions of the Post-IPO RSU Scheme; and
- (ii) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any selected participant under the rules of the Post-IPO RSU Scheme, provided further that for the avoidance of doubt, the change in the subsisting rights of a selected participant in this paragraph refers solely to any change in the rights in respect of the RSUs already granted to a selected participant.

7. Administration of the Post-IPO RSU Scheme

The Post-IPO RSU Scheme shall be subject to the administration of the Board in accordance with the Post-IPO RSU Scheme and, where applicable, the Trust Deed. The authority to administer the scheme may be delegated by the Board to a committee of the Board or any person(s) as deemed appropriate at the sole discretion of the Board.

8. General

As of December 31, 2021, no RSU had been granted or agreed to be granted under the Post-IPO RSU Scheme.

Further details of the Post-IPO RSU Scheme are set out in the Prospectus.

POST-IPO SHARE OPTION SCHEME

A summary of the principal terms of the Post-IPO Share Option Scheme conditionally approved and adopted in compliance with Chapter 17 of the Listing Rules by resolutions of our Shareholders on November 18, 2021 is as follows.

1. Purpose

The purpose of the Post-IPO Share Option Scheme is to align the interests of Eligible Persons with those of our Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of our Group.

REPORT OF DIRECTORS

2. Selected participants

Any individual, being an employee, director, officer, consultant or advisor of any member of our Group or any affiliate (including nominees and/or trustees of any employee benefit trust established for them) ("**Eligible Person**") who the Board may in its absolute discretion select to grant an Option to subscribe for such number of Shares as the Board may determine at the Subscription Price (as defined below).

3. Maximum number of Shares

The maximum number of Shares in respect of which Options may be granted under the Post-IPO Share Option Scheme when aggregated with the maximum number of Shares in respect of which Options may be granted under any other option scheme over Shares shall not exceed 10% of the issued share capital of the Company as of the date of approval of the Post-IPO Share Option Scheme (or of the refreshing of the 10% limit) by the shareholders of the Company. Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme shall not be counted for the purpose of calculating the 10% limit. Within the aforesaid 10% limit (or alternatively subject to the approval of shareholders of the Company in general meeting), the maximum number of Shares to be issued upon exercise of all outstanding Options under this Post-IPO Share Option Scheme may be increased by increments as determined by the Board, provided that the total number of Shares to be issued upon exercise of all outstanding Options under the Post-IPO Share Option Scheme and all other schemes of the Company granted and yet to be exercised does not exceed 30% of all the Shares of the same class in issue from time to time. No Option may be granted under the Post-IPO Share Option Scheme if this will result in the limit being exceeded.

The maximum number of Shares shall be adjusted, in such manner as the auditor of the Company shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of the Company whether by way of capitalization of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction to which the Company is a party.

4. Maximum entitlement of a grantee

Except with the approval of shareholders in general meeting with the prospective Grantee and his associates abstaining from voting, no Option may be granted to any one person 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, canceled 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. The Company shall send a circular to its shareholders containing the information required under the Listing Rules. The number and terms of the Options to be granted to such prospective Grantee shall be fixed before the shareholders' approval of the grant of such Options and the date of Board meeting for proposing such further grant should be taken as the Offer Date for the purpose of calculating the Subscription Price.

REPORT OF DIRECTORS

5. Subscription price

The amount payable for each Share to be subscribed for under an option (“**Subscription Price**”) in the event of the option being exercised shall be determined by the Board at its absolute discretion, but shall be not less than the highest of:

- (i) the closing price of a Share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant which must be a business day;
- (ii) the average closing price of our Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share on the date of grant,

provided that, for the purpose of determining the Subscription Price where the Shares have been listed on the Stock Exchange for less than five business days, the issue price of the Shares in the Company’s Global Offering of the Shares shall be used as the closing price of the Shares for any business day falling within the period before the listing of the Shares on the Stock Exchange.

6. Time of exercise of an Option

Subject as provided in the Post-IPO Share Option Scheme and any conditions specified by the Board, an Option may, subject to the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to our Company in such form as the Board may from time to time determine stating that the option is thereby exercised and the number of Shares in respect of which it is exercised.

7. Lapse of Option

Any Option shall elapse automatically and not be exercisable on the earliest of:

- (a) the expiry of the Option Period or other applicable exercisable periods under the Post-IPO Share Option Scheme;
- (b) the date of the commencement of the winding-up of the Company;
- (c) the date on which the Grantee ceases to be an Eligible Person of the Company by reason of the summary termination of his employment or office or service on any one or more of the grounds that he has been guilty of gross misconduct, or has been convicted of any criminal offense involving his integrity or honesty that seriously impair the interests or benefits of the relevant company in the Group or (if so determined by the Board in its absolute discretion) on any other ground on which the relevant company in the Group would be entitled to terminate his employment or office summarily at common law or pursuant to any applicable laws or under the Grantee’s service contract with relevant company in the Group;

REPORT OF DIRECTORS

- (d) where the Grantee is an Eligible Person of a subsidiary or a consolidated affiliated entity of the Company, the date on which such subsidiary or consolidated affiliated entity of the Company ceases to be a member of the Group;
- (e) the date on which the Option is canceled by the Board;
- (f) the date on which the Grantee commits a breach of relevant clauses that rights are personal to the Grantees; or
- (g) the occurrence or non-occurrence of any event, expiry of any period, or nonsatisfaction of any condition, as specified in the letter containing the offer or grant of the relevant Option.

8. Duration

The Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date when the Post-IPO Share Option Scheme becomes unconditional, after which period no further Options will be granted by the provisions of the Post-IPO Share Option Scheme, but the provisions of this Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme.

9. Termination

The Company by an ordinary resolution in general meeting or the Board may at any time terminate the operation of the Post-IPO Share Option Scheme and in such event no further Options will be offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force in all other respects. All Options granted but unexercised prior to such termination shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Post-IPO Share Option Scheme.

10. Value of Option

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Post-IPO Share Option Scheme as if they had been granted as of the December 31, 2021. Any such valuation will have to be made on the basis of a certain option pricing model or other method that depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options granted as of December 31, 2021 would be based on a number of speculative assumptions that are not meaningful and would be misleading to investors.

11. Administration of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall be subject to the administration of the Board who may delegate all or part of such administration to a committee or any other authorised agent(s) as deemed appropriate at the sole discretion of the Board.

REPORT OF DIRECTORS

12. General

As of December 31, 2021, no option had been granted or agreed to be granted under the Post-IPO Share Option Scheme. Awards that correspond to 36,794,092 Shares remain available for issue under the Post-IPO Share Option Plan, which represent approximately 8.67% of our Company's issued share capital as of the date of this annual report.

Further details of the Post-IPO Share Option Scheme are set out in the Prospectus.

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

As at the December 31, 2021, interests or short positions of Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are registered in the register that the Company must keep in accordance with the section 352 of the Securities and Futures Ordinance; or which shall be separately notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Interests of our Directors in the Shares or Underlying Shares of the Company

Long Position in the Shares

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of shareholding in the total Shares in issue of the Company*
James Qun Xue	Interest in controlled corporation ⁽¹⁾	26,042,380	6.14%
	Founder of a discretionary trust ⁽²⁾	15,000,000	3.54%
	Beneficial interest ⁽³⁾	10,214,470	2.41%
James Arthur Geraghty	Beneficial interest ⁽⁴⁾	1,950,000	0.46%
Richard James Gregory	Beneficial interest ⁽⁵⁾	300,000	0.07%
Peng Kuan Chan	Beneficial interest ⁽⁶⁾	250,000	0.06%

Notes:

* The calculation is based on the total number of 424,191,920 Shares issued as at December 31, 2021.

(1) CTX Pharma Holdings Limited directly held 26,042,380 Shares and is wholly-owned by Dr. Xue.

(2) 15,000,000 Shares of our Company are held by JQX 2021 Gift Trust (a trust set up by Dr. Xue as settlor, the spouse of Dr. Xue as trustee and Dr. Xue's family members as the beneficiaries, the "Family Trust"). Under the terms of the Family Trust, Dr. Xue has the power to exercise all the voting rights attached to the Shares of our Company. Accordingly, Dr. Xue is deemed interested in the Shares held by the Family Trust.

(3) Dr. Xue beneficially holds 733,050 Shares of our Company under his own name. Pursuant to the Pre-IPO Equity Incentive Plan, Dr. Xue was granted with Share Options that represent 9,481,420 Shares as adjusted after the Share Subdivision.

(4) Mr. James Arthur Geraghty beneficially holds 650,000 Shares of our Company under his own name. Pursuant to the Pre-IPO Equity Incentive Plan, Mr. James Arthur Geraghty was granted with Shares Options that represent 1,300,000 Shares.

(5) Pursuant to the Pre-IPO Equity Incentive Plan, Mr. Richard James Gregory was granted with Shares Options that represent 300,000 Shares

(6) Pursuant to the Pre-IPO Equity Incentive Plan, Mr. Peng Kuan Chan was granted with Shares Options of 250,000 Shares.

REPORT OF DIRECTORS

Save as disclosed above, so far as the Directors are aware, as at the December 31, 2021, none of our Directors or chief executives has any interest and/or short position in the Shares, underlying Shares and debentures of the Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as the Directors or chief executive of the Company are aware, as at December 31, 2021, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had interests or short positions in 5% or more of the respective type of Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long Position in the Shares

Name of Shareholder	Nature of Interest	Number of Shares	Approximate percentage of shareholding in the total Shares in issue of the Company*
CTX Pharma Holdings Limited ⁽¹⁾	Beneficial interest	26,042,380	6.14%
James Qun Xue ⁽¹⁾⁽²⁾⁽³⁾	Interest in controlled corporation	26,042,380	6.14%
	Founder of a discretionary trust	15,000,000	3.54%
	Beneficial interest	10,214,470	2.41%
WuXi AppTech Co., Ltd. (無錫藥明康德新藥開發股份有限公司) (“Wuxi AppTech”) ⁽⁴⁾	Interest in controlled corporation	40,346,960	9.51%
RA Capital Management, L.P. ⁽⁵⁾	Interest in controlled corporation	60,235,590	14.20%
Peter Kolchinsky	Beneficiary of a trust (other than a discretionary interest)	60,235,590	14.20%
Anna Inge Leonore Haas Kolchinsky	Interest of spouse	60,235,590	14.20%
Qiming Corporate GP IV, Ltd. ⁽⁶⁾	Interest in controlled corporation	32,829,330	7.74%
Qiming Venture Partners IV, L.P. ⁽⁶⁾	Beneficial interest	31,824,490	7.50%

Notes:

* The calculation is based on the total number of 424,191,920 Shares issued as at the December 31, 2021.

(1) CTX Pharma Holdings Limited is an exempted company with limited liability incorporated in the British Virgin Islands and holds 26,042,380 Shares in our Company. CTX Pharma Holdings Limited is wholly-owned by Dr. Xue.

(2) Dr. Xue beneficially holds 733,050 Shares of our Company under his own name. Pursuant to the Pre-IPO Equity Incentive Plan, Dr. Xue was granted with Share Options that represent 9,481,420 Shares.

REPORT OF DIRECTORS

- (3) 15,000,000 Shares of our Company are held by the Family Trust. Under the terms of the Family Trust, Dr. Xu has the power to exercise all the voting rights attached to the Shares of our Company. Accordingly, Dr. Xue is deemed interested in the Shares held by the Family Trust.
- (4) WuXi AppTec (HongKong) Limited, company incorporated in Hong Kong on March 26, 2012 holding 20,554,860 Shares of our Company, is a wholly-owned subsidiary of WuXi AppTec. Moreover, WuXi PharmaTech Healthcare Fund I L.P. is an exempted limited partnership established in the Cayman Islands directly holding 19,792,100 Shares in our Company. All limited partnership interests of WuXi PharmaTech Healthcare Fund I L.P. are held by Wuxi Apptec and the general partner of WuXi PharmaTech Healthcare Fund I L.P. is a wholly-owned subsidiary of WuXi AppTec. Accordingly, Wuxi Apptec is deemed interested in the Shares held by each of WuXi AppTec (HongKong) Limited and WuXi PharmaTech Healthcare Fund I L.P..
- (5) RA Capital Management, L.P., a limited partnership formed in Delaware, United States, serves as investment manager of RA Capital Healthcare Fund, L.P., an exempted limited partnership established in Delaware, United States, directly holding 47,185,140 Shares in our Company, RA Capital Nexus Fund, L.P., an exempted limited partnership established in the Delaware, United States, directly holding 9,137,400 Shares in our Company, and Blackwell Partners LLC – Series A, a series limited liability company incorporated in Delaware, United States, holds 3,913,050 Shares in our Company. The general partner of RA Capital Healthcare Fund, LP is RA Capital Healthcare Fund GP, LLC and the general partner of RA Capital Nexus Fund, LP is RA Capital Nexus Fund GP, LLC. Each of RA Capital Healthcare Fund, L.P. and RA Capital Nexus Fund, L.P. is an affiliate of RA Capital Management, L.P.. Accordingly, RA Capital Management, L.P. is deemed interested in the Shares held by each of RA Capital Healthcare Fund, L.P., RA Capital Nexus Fund, L.P. and Blackwell Partners LLC. Based on the disclosure of interests forms submitted by the shareholders, Mr. Peter Kolchinsky has a controlling interest in RA Capital Management, L.P. Ms. Anna Inge Leonore Kolchinsky is Mr. Peter Kolchinsky's spouse.
- (6) Qiming Venture Partners IV, L.P. and Qiming Managing Directors Fund IV, L.P. are venture capital funds operated under Qiming Venture Partners and registered as exempted limited partnerships in the Cayman Islands. Qiming GP IV, L.P. is the general partner of Qiming Venture Partners IV, L.P., and Qiming Corporate GP IV, Ltd. is the general partner of Qiming GP IV, L.P. Accordingly, each of Qiming GP IV, L.P. and Qiming Corporate GP IV, Ltd. is deemed to be interested in the Shares held by Qiming Venture Partners IV, L.P. Moreover, Qiming Managing Directors Fund IV, L.P. holds 1,004,840 Shares of our Company. Qiming Corporate GP IV, Ltd. is the general partner of Qiming Managing Directors Fund IV, L.P. and is deemed to be interested in the Shares held by Qiming Managing Directors Fund IV, L.P..

Except as disclosed in this section, as far as the Directors are aware, as at December 31, 2021, no person owns interests and short positions in the Shares and underlying Shares which shall be disclosed in accordance with Divisions 2 and 3 of Part XV of the SFO, or interests or short positions in 5% or above of relevant class of Shares that the Company must record in the register according to section 336 of the SFO.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

None of the Company, its holding company or any of its subsidiaries has entered into any arrangement at any time from the Listing Date to the date of this report, so that the Directors would benefit from the purchase of Shares or debt securities (including debentures) of the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

In the Reporting Period, the Group's largest customer accounted for 16.7% of the Group's total revenue. The Group's five largest customers accounted for 48.0% of the Group's total revenue.

In the Reporting Period, the Group's largest supplier accounted for 15.7% of the Group's total purchase. The Group's five largest suppliers accounted for 46.1% of the Group's total purchase.

REPORT OF DIRECTORS

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

We do not rely on one single major customer. While our top five largest customers contributed to over 40% of our total revenue over the Reporting Period, the credit terms granted to our top five major customers are in line with those granted to other customers. When determining the credit term of a customer or a distributor, we consider a number of factors, including its cash flow conditions and creditworthiness as well as the local medical care policy and market environment. We have policies to monitor and manage the settlement of trade receivables and our subsequent settlement of trade receivables with our top five major customers have been in line with those with our other customers and no provisions are necessary. To monitor the settlement of our trade receivables, we conduct annual review of each customer's or distributor's financial performance, which is primarily based on the amount and aging of the trade receivables due from such customer or distributor in the respective period. Pursuant to our distribution agreement, when our distributor fails to make a payment within the credit term, we may, at our discretion, terminate the distribution arrangement or take certain other measures as appropriate.

There are no significant concentrations of credit risk within our Group as the customer bases of our trade receivables are spread out. Nevertheless, in order to minimise any such credit risk, the Group reviews the recoverable amount of each individual trade receivable periodically and management has monitoring procedures to ensure follow-up action is taken to recover overdue receivables.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

As at the date of this annual report, the Company is not aware of any tax relief or exemption available to the Shareholders of the Company by reason of their holding of the Company's securities.

HUMAN RESOURCES

The Group had 183 employees as at December 31, 2021.

The Group's employees' remuneration consists of salaries, bonuses, share-based incentive plans, an employees' provident fund, and social security contributions and other welfare payments. In accordance with applicable laws in China and other relevant jurisdictions, we have made contributions to social security insurance funds (including pension plans, unemployment insurance, work-related injury insurance, medical insurance and maternity insurance) and housing funds for the employees of the Group.

We conduct new staff training regularly to guide new employees and help them adapt to the new working environment. In addition, we provide on-line and in-person formal and comprehensive company-level and department-level training to our employees periodically in addition to on-the-job training. We also encourage our employees to attend external seminars and workshops to enrich their technical knowledge and develop competencies and skills. We also provide training and development programs to our employees and external training sessions from time to time to improve their technical skills and ensure their awareness and compliance with our various policies and procedures.

REPORT OF DIRECTORS

RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

During the Reporting Period, no forfeited contributions had been used by the Group to reduce the existing level of contributions.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the Reporting Period are set out in note 30 to the financial statements contained herein.

The related party transactions disclosed in note 30 were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

INDEMNITY OF DIRECTORS

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices, other than by reason of such person's fraud, dishonesty or recklessness. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group since the Listing Date.

CORPORATE GOVERNANCE

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**").

From the Listing Date to the date of this report, the Company has complied with all the applicable code provisions in the Corporate Governance Code, save for the deviation from code provision C.2.1 (i.e. former code provision A.2.1) as disclosed below.

REPORT OF DIRECTORS

We do not have separate Chairman of the Board and Chief Executive Officer. Dr. Xue has served as chairman of the board and general manager of CANbridge Life Sciences Ltd. since June 2012 and as Chairman of the Board, Director and Chief Executive Officer since the inception of our Company in January 2018. Dr. Xue is the founder of the Group and has extensive experience in the business operations and management of our Group. Our Board believes that, in view of his experience, personal profile and his roles in our Company, Dr. Xue is the Director best suited to identify strategic opportunities and focus of the Board due to his extensive understanding of our business as our Chief Executive Officer. Our Board also believes that the combined role of Chairman of the Board and Chief Executive Officer can promote the effective execution of strategic initiatives and facilitate the flow of information between management and the Board. Our Directors consider that the balance of power and authority will not be impaired due to this arrangement. In addition, all major decisions are made in consultation with members of the Board, including the relevant Board committees, and the independent non-executive Directors.

In order to maintain high standards of corporate governance, the Board will continuously review and monitor the Company's corporate governance code. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report of this annual report.

DONATIONS

During the Reporting Period, the Company made a donation of approximately RMB4.2 million to various PRC charity projects or organisations.

AUDITOR

The shares were only listed on the Stock Exchange on December 10, 2021, and there has been no change in auditors since the Listing Date. The financial statements for the Reporting Period have been audited by Ernst & Young, Certified Public Accountants, who are proposed for reappointment at the AGM.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have a significant impact on it, including the requirements under the Companies Ordinance, the Listing Rules, the SFO and the Corporate Governance Code for, among other things, the disclosure of information and corporate governance. For the Reporting Period, the Company is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Company.

REPORT OF DIRECTORS

MATERIAL LEGAL PROCEEDINGS

In July 2020, Puma initiated an arbitration proceeding against us in connection with the license agreement between Puma and us signed in 2018. We have reached a settlement with Puma in February 2021 to settle such arbitration. For details, please see section headed “Business – Legal Proceedings and Compliance” in the Prospectus. We have implemented heightened measures to monitor our other license agreements, including but not limited to periodic check of performance under the agreements by our business development team and enhanced compliance review by our internal counsel.

Save as disclosed above, the Company was not involved in any material litigation or arbitration during the year ended December 31, 2021. The Directors are also not aware of any material litigation or claims that were pending or threatened against the Group during the year ended December 31, 2021.

KEY RISKS AND UNCERTAINTIES

There are certain key risks and uncertainties involved in our operations, some of which are beyond our control. Set out below are the material risks and uncertainties that we face:

- The actual market size of our drug candidates might be smaller than expected and 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.
- Our business and financial prospects depend substantially on the success of our clinical stage and pre-clinical stage drug candidates. If we are unable to successfully complete their clinical development, obtain relevant regulatory approvals or achieve their commercialization, or if we experience significant delays in any of the foregoing, our business and profitability may be adversely affected.
- We may not be able to identify, discover or in-license new drug candidates, and may allocate our limited resources to pursue a particular candidate or indication and fail to capitalize drug candidates or indications that may later prove to be more profitable, or for which there is a greater likelihood of success. Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials and non-head-to-head analyses may not be predictive of future trial results. As such, we may not be able to successfully expand our drug portfolio, which could materially and adversely affect our future growth and prospects.
- If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.
- We have incurred significant net losses and net operating cash outflows since our inception, and expect to continue to incur net losses and net operating cash outflows for the foreseeable future and may not be able to generate sufficient revenue to achieve or maintain profitability. Potential investors are at risk of losing substantially all of their investments in our Shares.

REPORT OF DIRECTORS

- Our rights to develop and commercialize some of our drug candidates are subject to the terms and conditions of licenses granted to us by others.
- 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 materially and adversely affect our business.
- All material aspects of the research, development, manufacturing and commercialization of pharmaceutical products are heavily regulated and the approval process is usually lengthy, costly and inherently unpredictable. Any failure to comply with existing or future 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.
- 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.

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

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming AGM will be held on Friday, June 24, 2022. The notice of the AGM will be published and despatched to the Shareholders in April 2022.

The register of member of the Company will be closed from Tuesday, June 21, 2022 to Friday, June 24, 2022 (both days inclusive), in order to determine the eligibility of the holders of shares to attend and vote at the AGM. The holder of shares whose names appear on the share register of members of the Company on Tuesday, June 21, 2022 will be entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Monday, June 20, 2022.

On behalf of the Board

Dr. James Qun Xue

Chairman

Hong Kong, March 22, 2022

CORPORATE GOVERNANCE REPORT

The Board of the Company is pleased to present this corporate governance report in this annual report (the “**Corporate Governance Report**”) for the period from the Listing Date to December 31, 2021.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to achieving good corporate governance standards.

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

The Company’s corporate governance practices are based on the principles as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

The Board is of the view that throughout the period from the Listing Date to December 31, 2021, the Company has complied with all the code provisions as set out in the CG Code, except for code provision C.2.1 (i.e. former code provision A.2.1) of the CG Code which provides that the roles of Chairman of the Board and Chief Executive Officer should be separated and should not be performed by the same individual, details of which are set out under the section headed “Board of Directors – Chairman and Chief Executive Officer” of this Corporate Governance Report.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has devised its own code of conduct for the trading of securities by its directors and members of senior management of the Group (who are likely to possess inside information about the securities of the Company due to their offices or employments in the Company or its subsidiaries) on terms that no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Model Code. Having made specific enquiry by the Company, all directors and members of senior management of the Group have confirmed that they have complied with the required standard set out in the Model Code throughout the period from the Listing Date to December 31, 2021. The Company continues and will continue to ensure the compliance with the corresponding provisions set out in the Model Code.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group’s businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

CORPORATE GOVERNANCE REPORT

Board Composition

As at the date of this report, the Board comprised 8 Directors, consisting of 1 executive Director, 3 non-executive Directors and 4 independent non-executive Directors as follows:

Executive Director

Dr. James Qun Xue (*Chairman and Chief Executive Officer*)

Non-executive Directors

Dr. Kan Chen

Dr. Derek Paul Di Rocco

Mr. Xiao Le

Independent Non-executive Directors

Dr. Richard James Gregory

Mr. James Arthur Geraghty

Mr. Peng Kuan Chan

Dr. Lan Hu

The biographical information of the Directors are set out in the section headed “Biographies of Directors and Senior Management” of this annual report.

The relationships between the Directors set forth in the respective Director’s biography under the section headed “Biographies of Directors and Senior Management”, the Directors do not have financial, business, family or other material/relevant relationships with one another.

Chairman and Chief Executive Officer

Code provision C.2.1 (i.e. former code provision A.2.1) stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

We do not have separate Chairman of the Board and Chief Executive Officer. Dr. Xue has served as chairman of the board and general manager of CANbridge Life Sciences since June 2012 and as Chairman of the Board, Director and Chief Executive Officer since the inception of our Company in January 2018. Dr. Xue is the founder of the Group and has extensive experience in the business operations and management of our Group. Our Board believes that, in view of his experience, personal profile and his roles in our Company, Dr. Xue is the Director best suited to identify strategic opportunities and focus of the Board due to his extensive understanding of our business as our Chief Executive Officer. Our Board also believes that the combined role of Chairman of the Board and Chief Executive Officer can promote the effective execution of strategic initiatives and facilitate the flow of information between management and the Board. Our Directors consider that the balance of power and authority will not be impaired due to this arrangement. In addition, all major decisions are made in consultation with members of the Board, including the relevant Board committees, and independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

Throughout the period from the Listing Date to December 31, 2021, the Board at all times fulfilled the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years and are eligible for re-election upon expiry of their term of office in accordance with the Articles of Association.

According to the Articles of Association, Directors shall be elected or replaced at general meetings and their term of office shall be three years. Directors are eligible for re-election upon expiry of their term of office. Without violating the relevant laws, regulations and regulatory rules of the locality where the Company's shares are listed, a person newly appointed as director by the Board to fill a casual vacancy or as an addition to the existing Board shall serve until the first shareholders' general meeting of the Company after his/her appointment or until the next annual general meeting of the Company, respectively, at which time the said person is eligible for re-election.

Responsibilities of the Directors

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

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

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

CORPORATE GOVERNANCE REPORT

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

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

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

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities.

Continuous Professional Development of Directors

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

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, all Directors attended training sessions on the respective obligations of the Directors and senior management. In addition, relevant reading materials including legal and regulatory update have been provided to the Directors for their reference and studying.

CORPORATE GOVERNANCE REPORT

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors during the Reporting Period and up to the date of this report is summarized as follows:

Directors	Type of Training ^{Note}
<i>Executive Director</i>	
Dr. James Qun Xue	A/B
<i>Non-Executive Directors</i>	
Dr. Kan Chen	A/B
Dr. Derek Paul Di Rocco	A/B
Mr. Xiao Le	A/B
<i>Independent Non-Executive Directors</i>	
Dr. Richard James Gregory	A/B
Mr. James Arthur Geraghty	A/B
Mr. Peng Kuan Chan	A/B
Dr. Lan Hu (appointed with effect from February 16, 2022)	A/B

Note:

Types of Training

- A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
 B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Diversity Policy

We are committed to promote diversity in our Company to the extent practicable by taking into consideration a number of factors in respect of our corporate governance structure.

We have adopted a board diversity policy which 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 board diversity 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, nationality, cultural and education background, ethnicity and length of service. Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of biotechnology, clinical research, life science, business management, finance, investment and accounting. They obtained degrees in various areas including pharmaceutical chemistry and biochemistry, chemical and biomolecular engineering, life science, clinical research, business administration and accounting. Our board diversity policy is well implemented as evidenced by the fact that there are Directors with both male and female ranging from 33 years old to 67 years old with different nationalities and experience from different industries and sectors. Our Board believes that based on our existing business model and specific needs, the background of our Directors and the composition of our Board satisfies the principles under the Board Diversity Policy.

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

CORPORATE GOVERNANCE REPORT

Our Nomination and Corporate Governance Committee is delegated by our Board to be responsible for compliance with relevant codes governing board diversity under the Corporate Governance Code. Subsequent to the Listing, our Nomination and Corporate Governance Committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis. In particular, our Company has taken the opportunity to increase the proportion of female members of the Board when selecting and recommending suitable candidates for Board appointments to help enhance gender diversity in accordance with stakeholder expectations and recommended best practices. Our Company also intends to promote gender diversity when recruiting staff at the mid to senior level so that our Company will have a pipeline of female senior management and potential successors to the Board. We plan to offer all-rounded trainings to female employees whom we consider to have the suitable experience, skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development. We believe that a 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.

Nomination Policy

The primary duties of the Nomination and Corporate Governance Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board of Directors on matters relating to the appointment of Directors.

The Company has adopted Director Nomination Policy which sets out the objectives, selection criteria and nomination procedures for identifying and recommending candidates for appointment or reappointment of Directors.

During the period from the Listing Date to December 31, 2021, there was no change in the composition of the Board.

BOARD COMMITTEES

The Board has established 3 committees, namely, the Audit Committee, the Remuneration Committee and the Nomination and Corporate Governance Committee, for overseeing particular aspects of the Company's affairs.

All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

CORPORATE GOVERNANCE REPORT

Audit Committee

As at the date of this report, the Audit Committee consists of two independent non-executive Directors, namely Mr. Peng Kuan Chan and Mr. James Arthur Geraghty, and one non-executive Director, namely Dr. Kan Chen. Mr. Peng Kuan Chan is the chairperson of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code.

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

- making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to consider any questions of resignation or dismissal of that auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- reviewing the Company's financial controls and, unless expressly addressed by a separate Board risk committee or by the Board itself, reviewing the Company's risk management and internal control systems;
- monitoring integrity of financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them;
- reviewing the Group's financial and accounting policies and practices; and
- considering any other topics, as defined by the Board.

As the Company's shares were only listed on the Stock Exchange on December 10, 2021, the Audit Committee did not hold any meetings during the year ended December 31, 2021. During the period from the Listing Date to date of this report, the Audit Committee held 2 meeting to review, among others, the audit plan, the draft audited consolidated financial statements, the letter of representation by the management of the Company addressed to Ernst & Young, the draft annual results announcement, the draft annual report, the efficiency of risk management and internal control systems.

The Audit Committee also met the external auditors 1 time without the presence of the Executive Director.

The attendance records of the Audit Committee are set out under "Attendance Record of Directors and Committee Members".

CORPORATE GOVERNANCE REPORT

Remuneration Committee

As at the date of this report, the Remuneration Committee consists of one non-executive Director, namely Mr. Xiao Le and two independent non-executive Directors, namely Dr. Richard James Gregory and Dr. Lan Hu. Dr. Richard James Gregory is the chairperson of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code.

The main duties of the Remuneration Committee include but are not limited to:

- making recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewing and approve management's remuneration proposals with reference to the Board's goals and objectives;
- making recommendations to the Board on the remuneration of Non-executive Directors;
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration;
- considering salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;
- reviewing and approving the compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment in order to ensure that such compensation is consistent with the contractual terms and is otherwise fair and not excessive; and
- reviewing the Group's policy on expense reimbursements for the Directors and Senior Management.

As the Company's shares were only listed on the Stock Exchange on December 10, 2021, the Remuneration Committee did not hold any meetings during the year ended December 31, 2021. During the period from the Listing Date to the date of this report, the Remuneration Committee held 1 meeting to review the remuneration policy and packages for the Directors and senior management.

CORPORATE GOVERNANCE REPORT

Details of the remuneration of the senior management by band are set out in note 9 in the Notes to the Financial Statements for the year ended December 31, 2021.

The attendance records of the Remuneration Committee are set out under “Attendance Records of Directors and Committee Members”.

Nomination and Corporate Governance Committee

As at the date of this report, the Nomination and Corporate Governance Committee consists of one executive Director, namely Dr. James Qun Xue, one non-executive Director, namely Dr. Derek Paul Di Rocco and three independent non-executive Directors, namely Mr. Peng Kuan Chan, Mr. James Arthur Geraghty and Dr. Richard James Gregory. Dr. James Qun Xue is the chairperson of the Nomination and Corporate Governance Committee.

The terms of reference of the Nomination and Corporate Governance Committee are of no less exacting terms than those set out in the CG Code.

The main duties of the Nomination and Corporate Governance Committee include but are not limited to:

- reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board annually and making recommendations on any proposed changes to the Board to complement the issuer’s corporate strategy;
- making recommendations to the board on the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive;
- identifying individuals suitably qualified to become Directors and selecting or making recommendations to the Board on the selection of individuals nominated for directorship;
- assessing the independence of independent non-executive Directors;
- keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace; and
- keeping up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

CORPORATE GOVERNANCE REPORT

In assessing the Board composition, the Nomination and Corporate Governance Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience. The Nomination and Corporate Governance Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination and Corporate Governance Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

As the Company's shares were only listed on the Stock Exchange on December 10, 2021, the Nomination and Corporate Governance Committee did not hold any meetings during the year ended December 31, 2021. During the period from the Listing Date to the date of this report, the Nomination and Corporate Governance Committee held 1 meeting to review, among others, the structure, size and composition of the Board, the independence of the Independent Non-executive Directors, the re-election of retiring Directors at the AGM and succession planning for Directors, effectiveness of the Board diversity policy (including gender diversity), effectiveness of the mechanism to ensure independent view and input are available to the Board and effectiveness of the corporate governance or compliance affairs and practices of the Company.

The attendance records of the Nomination and Corporate Governance Committee are set out under "Attendance Record of Directors and Committee Members".

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 (i.e. former code provision D.3.1) of the CG Code.

During the period from the Listing Date to December 31, 2021, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

Pursuant to code provision C.5.1 (i.e. former code provision A.1.1) of the Corporate Governance Code, Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication. As the Company was only listed on the Stock Exchange on December 10, 2021, no meeting was held by the Board and Board committees from the Listing Date to the end of the Reporting Period. During the period from the Listing Date to the date of this report, 3 board meetings was held to consider and approve, amongst other matters the budget for the year 2022, the annual results of the Company and its subsidiaries for the year ended December 31, 2021 and its publication. The Company expects to continue to convene at least four regular meetings in each financial year at approximately quarterly intervals in accordance with code provision C.5.1 (i.e. former code provision A.1.1) of the Corporate Governance Code.

As the Company was only listed on the Stock Exchange on December 10, 2021, no meeting was held by the chairman with the independent non-executive directors without the presence of other directors during the period from the Listing Date and up to December 31, 2021. The Company expects the chairman to at least annually hold meetings with the independent non-executive Directors without the presence of the other directors in accordance with code provision C.2.7 (i.e. former code provision A.2.7) of the Corporate Governance Code going forward.

CORPORATE GOVERNANCE REPORT

The attendance record of each Director during their tenure of office at the Board and Board Committee meetings and the general meetings of the Company held during the period from the Listing Date to December 31, 2021 is set out in the table below:

Name of Director	Attendance/Number of Meetings					
	Board	Audit Committee	Remuneration Committee	Nomination and Corporate Governance Committee	Annual General Meeting	Other General Meetings
Dr. James Qun Xue	0/0	N/A	N/A	0/0	Nil	Nil
Dr. Kan Chen	0/0	0/0	N/A	N/A	Nil	Nil
Dr. Derek Paul Di Rocco	0/0	N/A	N/A	0/0	Nil	Nil
Mr. Xiao Le	0/0	N/A	0/0	N/A	Nil	Nil
Dr. Richard James Gregory (ceased to be a member of the Audit Committee with effect from February 16, 2022)	0/0	0/0	0/0	0/0	Nil	Nil
Mr. James Arthur Geraghty (ceased to be the member (of the Remuneration Committee and has been appointed as a member of the Audit Committee with effect from February 16, 2022)	0/0	N/A	0/0	0/0	Nil	Nil
Mr. Peng Kuan Chan	0/0	0/0	N/A	0/0	Nil	Nil
Dr. Lan Hu (appointed with effect from February 16, 2022)	N/A	N/A	N/A	N/A	Nil	Nil

Note:

According to Article 62 of the Articles of Association, an annual general meeting of the Company shall be held in each year other than the year of the Company's adoption of the Articles of Association. As the Articles of Association effective on the Listing Date was adopted by a special resolution passed on November 18, 2021, no annual general meeting was held during the period from the Listing Date to December 31, 2021.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

We recognize that risk management is critical to the success of our business operations. Key operational risks faced by us include changes in the general market conditions and the regulatory environment of the PRC and global pharmaceutical markets, our ability to develop, manufacture and commercialize our drug candidates, and our ability to compete with other peer 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.

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

- Our Audit Committee oversees and manages 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) monitoring the most significant risks associated with our business operations and our management's handling of such risks; and (iii) ensuring the appropriate application of our risk management framework across our Group.
- The relevant departments, including but not limited to the business operations, finance, legal and compliance and general administration departments, are responsible for developing and implementing our risk management policy and carrying out our day-to-day risk management practice, such as assessing risks on key business operations, advising risk responses and optimizing risk management policies. 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, evaluation, prioritization, and categorization of all key risks that could potentially affect their objectives; (iii) continuously monitor the key risks relating to their operations or functions; (iv) implement appropriate risk responses where necessary; and (v) develop and maintain an appropriate mechanism to facilitate the application of our risk management framework.

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

CORPORATE GOVERNANCE REPORT

Internal Control

Our Board of Directors is responsible for establishing and maintaining appropriate and effective internal control system to safeguard our Shareholders' investment at all times. Our internal control policies set out a framework to identify, assess, evaluate and monitor key risks associated with our strategic objectives on an ongoing basis.

The Group has adopted various measures and procedures regarding our business operations, and we provide training about these measures and procedures to employees. We also constantly regularly monitor the implementation of these measures and procedures.

We maintain strict anti-corruption policies on personnel with external communication functions. We will also ensure that our commercialization team complies with applicable promotion and advertising requirements, which include our code of interaction with health care professionals, patients and the public, restrictions on promoting drugs for unapproved uses or patient populations and limitations on industry-sponsored scientific and educational activities.

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

The Audit Committee shall (i) make recommendations to our Directors on the appointment and removal of external auditors; and (ii) review the financial statements and render advice in respect of financial reporting, as well as (iii) oversee the financial reporting system and internal control and risk management systems of our Group.

As at the date of this report, the Audit Committee has approved, and accordingly, the Company will adopt the setup of an internal audit function which aims at helping the Company to accomplish its objectives by applying a systematic, disciplined approach to evaluate and improve the effectiveness of the Group's risk management and internal control systems and to resolve material internal control defects.

During the Reporting Period, we have regularly reviewed and enhanced our risk management and internal control systems. We believe that our Directors and members of our senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control. The Board has reviewed the effectiveness of the risk management and the internal control system of the Group, including the adequacy of resources, qualifications and experience of staff in the aforementioned systems and of the Company's accounting and financial reporting functions and the adequacy of their training programs and budget. The Board, through a review covering all material controls, including financial, operational and compliance controls, considered that the risk management and internal control system of the Group was effective and adequate. The Board will conduct annual review on the risks management and internal control system of the Company.

In addition, 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.

CORPORATE GOVERNANCE REPORT

Moreover, the Company upholds business integrity, openness and honesty as our core values in conducting business. We have zero tolerance for any forms of corruption, bribery, extortion, money-laundering and other fraudulent activities, and require all staff to uphold their personal and professional conduct.

The Company has also established and circulated guidelines and provisions, including “Anti-Corruption Guideline Policy”, “Anti-Money Laundering Compliance Provisions”, “Anti-Monopoly and Fair Competition Compliance Policy” and “Whistleblowing and Anti-Fraud Policy” to ensure staff awareness and compliance with the requirements at all times. For further details, please see the Environmental, Social and Governance Report to be published in due course.

DIRECTORS’ RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The following statement, which sets out the responsibilities of the directors regarding financial statements, should be read in conjunction with, but understood separately from, the auditor’s statement of their responsibilities as set out in the Independent Auditor’s Report contained in this annual report. The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2021.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors’ Report.

AUDITORS’ REMUNERATION

The remuneration paid or payable to the Company’s external auditors of the Group in respect of audit services and non-audit services for the year ended December 31, 2021 amounted to RMB5.2 million and RMB1.4 million, respectively.

An analysis of the remuneration paid/payable to the external auditors of the Group, in respect of audit services and non-audit services for the year ended December 31, 2021 is set out below:

Service Category	Fees Paid/Payable RMB’000
Audit Services	5,240
Non-audit Services	1,406
	6,646

CORPORATE GOVERNANCE REPORT

JOINT COMPANY SECRETARIES

During the period from the Listing Date to the date of this report, Ms. Qian Ma (“**Ms. Ma**”), a joint company secretary of the Company, has been responsible for advising the Board on corporate governance matters and ensuring that the Board’s policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Mr. Keith Shing Cheung Wong as the other joint company secretary of the Company to assist Ms. Ma to discharge her duties as company secretary of the Company. Mr. Keith Shing Cheung Wong served as a senior manager of SWCS Corporate Services Group (Hong Kong) Limited. He is mainly responsible for managing the company secretarial and compliance work for companies listed on the Stock Exchange.

Mr. Keith Shing Cheung Wong has resigned and Mr. Wai Chiu Wong (“**Mr. Wong**”) has been appointed as a joint company secretary of the Company with effect from April 1, 2022. Mr. Wong is the Associate Director of SWCS Corporate Services Group (Hong Kong) Limited and has extensive experience in compliance and listed companies secretarial work. Ms. Ma was designated as the primary contact person at the Company who would work and communicate with Mr. Keith Shing Cheung Wong (and going forward, with Mr. Wong) on the Company’s corporate governance and secretarial and administrative matters.

The joint company secretaries have complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year.

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

SHAREHOLDERS’ RIGHTS

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

Convening Shareholders’ General Meetings

A shareholders’ annual general meeting is required to be held once every year within six months following the end of the previous financial year.

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two Months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) 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.

CORPORATE GOVERNANCE REPORT

Putting Forward Proposals at General Meetings

There are no provisions under the Articles of Association or the Companies Law of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as a Director.

Shareholders may follow the procedures set out above to convene an extraordinary general meetings for any business specified in such requisition. The contents of such proposals shall fall with the functions and powers of the general meeting, shall feature definite topics and specific issues for resolution, and shall be in compliance with relevant requirements of laws, administrative regulations, listing rules for stock exchanges where the Company's shares are listed and the Articles of Association.

For proposal of a person for election as Director, pursuant to Article 114 of the Articles of Association, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director signed by a Shareholder and notice in writing signed by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office. The period for lodgement of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

For procedures of nomination of candidates for directorship by Shareholders, please refer to the website of the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may supervise the operations of the Company, and to make suggestions and enquiries accordingly.

Contact Details

(a) *Enquiries about Shareholdings*

The Shareholders should direct their enquiries about their shareholdings to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, by calling its hotline at +852 2862 8555 or sending a message at https://www.computershare.com/hk/en/online_feedback, or going in person to its public counter at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(b) *Enquiries about Corporate Governance or Other Matters to be put to the Board and the Company*

The Company will not normally deal with verbal or anonymous enquiries. The Shareholders may send written enquiries to the Company, for the attention of the Board of Directors by mail to Suite 301, 3/F, Timeloit, No. 17 Rong Chang Road, Chaoyang District, Beijing, PRC.

The Shareholders' information may be disclosed as required by law.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. For this purpose, the Company has set up a website (www.canbridgepharma.com), where relevant latest information, the up-to-date state of the Company's business operation and development, the Company's financial information and corporate governance practices and other data are available to the public.

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

Changes to the Articles of Association

The existing Articles of Association were adopted on November 18, 2021 with effect from the Listing Date. During the period from the Listing Date to December 31, 2021, no changes were made to the Articles of Association.

The Articles of Association is also available on the Company's website and the Stock Exchange's website.

Policies relating to Shareholders

The Company has in place a Shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

Dividend Policy

The Company has adopted a policy on payment of dividends taking into consideration of various elements including but not limited to, among other things, the earnings, cash flow, financial conditions, capital requirements, statutory fund reserve requirements of the Group and any other conditions which the Board may deem relevant. The policy sets out the factors in consideration, procedures and methods of the payment of dividends with an objective to provide the Shareholders with continuing, stable and reasonable returns on investment while maintaining the Company's business operation and achieving its long-term development goal. The distribution of dividends will be formulated by our Board, and will be subject to Shareholders' approval.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of CANbridge Pharmaceuticals Inc.

(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the financial statements of CANbridge Pharmaceuticals Inc. (the “Company”) and its subsidiaries (the “Group”) set out on pages 80 to 160, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (“IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Cut-off of research and development expenses

The Group incurred research and development ("R&D") expenses of RMB427,658,000 as disclosed in the consolidated statement of profit or loss for the year ended 31 December 2021. A large portion of R&D expenses represented service fees paid to contract research organizations ("CRO"), contract manufacturing organizations ("CMO") (collectively referred as "Outsourced Service Providers").

The R&D activities contracted with these Outsourced Service Providers are documented in CRO/CMO agreements and are typically performed over an extended period. Recording of these expenses in the appropriate financial reporting periods based on the progress of the R&D projects involves estimation.

The Group's disclosure about R&D expenses is included in note 2.4 *Summary of significant accounting policies* and note 3 *Significant accounting judgements and estimates*.

We obtained an understanding of and evaluated the key controls over the R&D expenses process;

We inquired management about the reasons for periodical fluctuations in R&D expenses and assessed the reasonableness of those fluctuations based on our understanding of the progress of the major R&D projects during the year ended 31 December 2021;

For the service fees paid/payable to the Outsourced Service Providers, we, on a sampling basis, reviewed the key terms set out in the agreements with the Outsourced Service Providers, evaluated the completion status of the R&D projects with reference to the progress reported by the project managers which are based on inputs such as number of patient enrolments, time elapsed and milestone achieved, and inspected the supporting documents, to determine whether the service fees were properly recorded in the appropriate financial reporting periods based on the respective contract terms, progress and/or the milestones achieved;

We obtained external confirmation from major Outsourced Service Providers, to confirm the amount of the R&D services fees incurred for the year ended 31 December 2021 and the amounts payable under the CRO/CMO agreements as of 31 December 2021; and

We evaluated the adequacy of the R&D expenses by comparing the subsequent milestone billings and payments with the accrued R&D expenses, to determine whether the R&D expenses were recorded in the appropriate financial reporting periods.

We evaluated the adequacy and accuracy of the Group's disclosure about R&D expenses.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

In preparing the 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.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

INDEPENDENT AUDITOR'S REPORT

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 financial statements, including the disclosures, and whether the 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 financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Wong Man Kit.

Ernst & Young

Certified Public Accountants

Hong Kong

22 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	31,161	12,032
Cost of sales		(12,385)	(5,154)
Gross profit		18,776	6,878
Other income and gains	5	13,402	1,359
Selling and distribution expenses		(100,748)	(51,008)
Administrative expenses		(145,517)	(77,716)
Research and development expenses		(427,658)	(109,642)
Fair value changes of convertible redeemable preferred shares	23	(462,436)	(591,385)
Fair value changes of convertible loans		–	1,689
Fair value changes of derivative financial instruments	24	34,454	(20,746)
Finance costs	7	(3,079)	(3,873)
Other expenses		(4,200)	(1,599)
LOSS BEFORE TAX	6	(1,077,006)	(846,043)
Income tax expense	10	–	–
LOSS FOR THE YEAR		(1,077,006)	(846,043)
Attributable to:			
Owners of the parent		(1,077,006)	(846,043)
LOSS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (EXPRESSED IN RMB PER SHARE)			
– Basic and diluted	12	(11.43)	(12.33)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
LOSS FOR THE YEAR	(1,077,006)	(846,043)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	16,461	45,307
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	16,461	45,307
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company	29,424	29,001
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	29,424	29,001
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	45,885	74,308
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(1,031,121)	(771,735)
Attributable to:		
Owners of the parent	(1,031,121)	(771,735)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	9,564	4,026
Right-of-use assets	14	19,978	11,544
Intangible assets	15	51,269	179,743
Total non-current assets		80,811	195,313
CURRENT ASSETS			
Inventories	16	13,448	553
Trade receivables	17	9,141	7,040
Prepayments, other receivables and other assets	18	43,307	22,648
Cash and cash equivalents	20	745,815	360,804
Total current assets		811,711	391,045
CURRENT LIABILITIES			
Trade payables	21	43,607	46,713
Other payables and accruals	22	103,423	33,557
Interest-bearing bank and other borrowings	25	30,868	22,314
Lease liabilities	14	7,882	5,519
Total current liabilities		185,780	108,103
NET CURRENT ASSETS		625,931	282,942
TOTAL ASSETS LESS CURRENT LIABILITIES		706,742	478,255
NON-CURRENT LIABILITIES			
Convertible redeemable preferred shares	23	–	2,167,121
Interest-bearing bank and other borrowings	25	–	11,645
Lease liabilities	14	13,351	7,417
Other non-current liabilities		–	1,456
Derivative financial instruments	24	–	36,472
Total non-current liabilities		13,351	2,224,111
Net assets/(liabilities)		693,391	(1,745,856)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	28	5
Reserves	28	693,363	(1,745,861)
Total equity/(deficit)		693,391	(1,745,856)

Executive Director: Dr. James Qun Xue

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Notes	Attributable to owners of the parent						Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Share-based payments reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	
		(note 26)	(note 28)	(note 28)	(note 27)	(note 27)	(note 28)	
At 1 January 2020		5	-	9,581	33,494	(1,004,081)	(29,645)	(990,646)
Loss for the year		-	-	-	-	(846,043)	-	(846,043)
Exchange realignment		-	-	-	-	-	74,308	74,308
Total comprehensive income for the year		-	-	-	-	(846,043)	74,308	(771,735)
Issue of shares from exercise of share options	26	-**	16,783	-	(14,913)	-	-	1,870
Share-based payments	27	-	-	-	14,655	-	-	14,655
At 31 December 2020		5	16,783*	9,581*	33,236*	(1,850,124)*	44,663*	(1,745,856)

	Notes	Attributable to owners of the parent						Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Share-based payments reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	
		(note 26)	(note 28)	(note 28)	(note 27)	(note 27)	(note 28)	
At 1 January 2021		5	16,783	9,581	33,236	(1,850,124)	44,663	(1,745,856)
Loss for the year		-	-	-	-	(1,077,006)	-	(1,077,006)
Exchange realignment		-	-	-	-	-	45,885	45,885
Total comprehensive income for the year		-	-	-	-	(1,077,006)	45,885	(1,031,121)
Issue of shares from initial public offering ("IPO")	26	4	559,747	-	-	-	-	559,751
Share issue expenses		-	(34,955)	-	-	-	-	(34,955)
Conversion of convertible redeemable preferred shares upon IPO	23	19	2,910,990	-	-	-	-	2,911,009
Issue of shares from exercise of share options	26	-**	8,461	-	(4,408)	-	-	4,053
Share-based payments	27	-	-	-	30,510	-	-	30,510
At 31 December 2021		28	3,461,026*	9,581*	59,338*	(2,927,130)*	90,548*	693,391

* These reserve accounts comprise the consolidated reserves of RMB693,363,000 (2020: RMB(1,745,861,000)) in the consolidated statement of financial position.

** Less than RMB1,000.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(1,077,006)	(846,043)
Adjustments for:			
Finance costs	7	3,079	3,873
Foreign exchange differences, net	6	(633)	470
Interest income	5	(2,607)	(964)
Gain on disposal of an intangible asset	5	(9,727)	–
Depreciation of property, plant and equipment	6	2,083	1,426
Amortisation of intangible assets	6	6,991	12,951
Depreciation of right-of-use assets	6	6,632	3,462
Fair value changes of convertible redeemable preferred shares	6	462,436	591,385
Fair value changes of convertible loans	6	–	(1,689)
Fair value changes of derivative financial instruments	6	(34,454)	20,746
Share-based payment expenses	27	30,510	14,655
Write-down of inventories to net realisable value	6	–	1,117
		(612,696)	(198,611)
(Increase)/decrease in inventories		(12,895)	66
Increase in trade receivables		(2,101)	(6,603)
(Increase)/decrease in prepayments, other receivables and other assets		(20,659)	1,806
(Decrease)/increase in trade payables		(3,106)	40,587
Increase in other payables and accruals		61,780	10,143
Cash used in operations		(589,677)	(152,612)
Interest received		2,607	964
Net cash flows used in operating activities		(587,070)	(151,648)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of an intangible asset		131,426	–
Purchases of items of property, plant and equipment	13	(5,087)	(2,571)
Additions to intangible assets	15	(245)	(150,912)
Net cash flows from/(used in) investing activities		126,094	(153,483)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible redeemable preferred shares	23	334,899	665,706
Proceeds from issue of derivative financial instruments	24	–	15,356
Proceeds from exercise of share options	26	4,053	985
Proceeds from issue of shares from IPO	26	559,751	–
Share issue expenses		(31,692)	(1,172)
Proceeds from bank and other borrowings		20,761	21,530
Repayment of bank and other borrowings		(24,506)	(14,246)
Transaction cost for issuance of convertible redeemable preferred shares	7	–	(79)
Interest paid on bank loans		(1,379)	(2,562)
Interest paid on convertible loans		–	(2,429)
Payment of lease liabilities	14	(7,577)	(3,826)
Net cash flows from financing activities		854,310	679,263
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		360,804	13,873
Effect of foreign exchange rate changes, net		(8,323)	(27,201)
CASH AND CASH EQUIVALENTS AT END OF YEAR		745,815	360,804
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	20	745,815	360,804

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 30 January 2018. The registered office address of the Company is 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands.

The Company is an investment holding company. During the year, the Group was principally engaged in the research and development and commercialisation of medical products.

The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") effective from 10 December 2021.

Information about subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2021 are as follows:

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CANbridge Pharmaceuticals Limited	Hong Kong 12 March 2018	US\$10,000	100%	–	Investment holding
CANbridge Biomed Limited ("CANbridge BIOMED")	Hong Kong 31 March 2014	US\$10,000	–	100%	Research and development and commercialisation of medical products
CANbridge Care Pharma Hong Kong Limited (北海康成珍愛藥業香港有限公司) ("CANbridge CARE Pharma")	Hong Kong 19 June 2018	US\$10,000	–	100%	Research and development and commercialisation of medical products
CANbridge Life Sciences Ltd. (北京康成(北京)醫藥科技有限公司) ("CANbridge Beijing")*	People's Republic of China (the "PRC")/ Mainland China 12 June 2012	RMB306,122,400	–	100%	Research and development and commercialisation of medical products
CANbridge (Shanghai) Life Sciences Ltd. (北海康成(上海)生物科技有限公司)*	PRC/Mainland China 22 June 2016	RMB120,000,000	–	100%	Research and development and commercialisation of medical products

NOTES TO FINANCIAL STATEMENTS

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1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
CANbridge Pharmaceuticals, Inc. ("CANbridge US")	United States of America ("USA") 1 September 2017	US\$1	100%	-	Research and development and business development
CARE Pharma Shanghai Ltd. (諾愛藥業(上海)有限公司)*	PRC/Mainland China 17 January 2018	US\$10,204,100	-	100%	Research and development
CANbridge Pharma Co., Ltd. (北海康成股份有限公司)*	Taiwan 5 October 2019	TW\$615,420	-	100%	Research and development and commercialisation of medical products
CANbridge (Suzhou) Bio-Pharma Co., Ltd. (北海康成(蘇州)生物製藥有限公司)* **	PRC/Mainland China 15 April 2021	US\$1,000,000	-	100%	Research and development
CANbridge Pharma Singapore Pte. Ltd.	Singapore 20 May 2021	S\$10,000	100%	-	Research and development

* The English names of these companies represent the best effort made by the management of the Company to directly translate their Chinese names as these companies did not register any official English names.

** Registered as a wholly-foreign-owned enterprise under PRC law.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial information of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits or accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

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

The nature and the impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

- (b) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease.

During the year ended 31 December 2021, no lease of the Group has been reduced or waived by the lessors as a result of the covid-19 pandemic. The amendment did not have any impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to adopt them, if applicable, when they become effective.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework¹</i>
Amendments to IAS 28 and IFRS 10	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
IFRS 17	<i>Insurance Contracts²</i>
Amendments to IFRS 17	<i>Insurance Contracts^{2, 4}</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current²</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to IAS 17	<i>Initial Application of IFRS17 and IFRS9 – Comparative Information²</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract¹</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021⁵</i>
<i>Annual Improvements to IFRS Standards 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41 ¹

1 Effective for annual periods beginning on or after 1 January 2022

2 Effective for annual periods beginning on or after 1 January 2023

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

5 Effective for annual periods beginning on or after 1 April 2021

Further information about those IFRSs that are expected to be applicable to the Group is described below.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IAS 1 Disclosure of Accounting Policies require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendment to IFRS 16 extend the availability of the practical expedient for any reduction in lease payments that affects only payments originally due on or before 30 June 2022 (the "2021 Amendment"). The 2021 Amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. The amendment are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its financial derivatives at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises in those expense categories consistent with the future of the impaired asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Electronic equipment	32%
Furniture and fixtures	19%
Motor vehicles	24%
Leasehold improvements	Over the shorter of the lease terms and 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets not yet available for use are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised.

Patents and licences

Purchased patents and licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years. When estimating the useful lives of the purchased patents and licences, the Company takes into account factors including the duration of the patents or licences, the anticipated duration of sales of products after patent expiration, as well as the useful lives of similar assets in the marketplace.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is 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, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding ten years, commencing from the date when the products are put into commercial production.

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated useful life of 10 years. The estimated useful life of software is determined by considering the period of the economic benefits to the Group as well as by referring to the industry practice.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Group assesses at contract inception whether a contract is, or contains, 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

<u>Categories</u>	<u>Estimated useful lives</u>
Leasehold office	1.25 to 5 years
Plant	6 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease liabilities (Continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated as at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated as at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets designated as at fair value through other comprehensive income (equity investments) (Continued)

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated as at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 30 to 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties, lease liabilities, convertible redeemable preferred shares, a convertible loan, and loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated as at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Subsequent measurement (Continued)

Financial liabilities at amortised cost (loans and borrowings) (Continued)

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Convertible loans

If the conversion option of convertible loans exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible loans is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible loans based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and comprises all cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

During the reporting period, revenue of the Group was primarily arising from the sale of medical products to the customers. Revenue is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods and invoice.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to statement of profit or loss as they become payable in accordance with the rules of the central pension scheme. The Group did not have any forfeited contribution for reporting period in connection with the defined contribution plan operated by local governments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. The functional currency of the Company is the United States Dollar ("US\$"). As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term for leases of building due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on production if a replacement is not readily available.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that 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.

Estimation of the fair value of financial liabilities

Certain financial liabilities are measured at fair value at the end of each reporting period as disclosed in note 32 to the financial statements.

The convertible redeemable preferred shares and warrants issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the Backsolve Approach to determine the underlying equity value of the Company and adopted the option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares and warrants. Key assumptions such as the lack of marketability discount and volatility were based on the Group's best estimates. Further details are included in notes 23 and 24 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Accrual of research and development costs

The Group engages contract research organizations (“CROs”) and contract manufacturing organizations (“CMOs”) (collectively referred as “Outsourced Service Providers”) to conduct, supervise, and monitor the Group’s ongoing clinical trials, or to develop manufacturing processes to support the Group’s own manufacturing capacities. Determining the amounts of research and development costs incurred up to the end of each reporting period requires the management of the Group to estimate and measure the progress of receiving research and development services under the contracts with Outsourced Service Providers using inputs such as number of patient enrolments, time elapsed and milestone achieved when the Group has not yet been invoiced or otherwise notified of the actual costs.

Fair value measurement of share-based payments

The Group has set up a share-based payment scheme and granted options to the Company’s directors, the Group’s employees and consultants. The fair value of the options is determined by the binomial option-pricing model at the grant dates for options granted to directors and employees, and at the service provision dates for the consultants. Significant estimates on assumptions, including the underlying equity value, discount rate, expected volatility, and dividend yield, are made by management. Further details are included in note 27 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Intangible assets not yet available for intended use are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgement on the future tax treatment of certain transactions and when certain matters relating to the income taxes have not been confirmed by the local tax bureau. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences and unused tax losses. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the losses can be utilised, management’s judgement is required to assess the probability of future taxable profits. Management’s assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. Further details are included in note 10 to the financial statements.

Provision for inventories

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at the lower of cost and net realisable value. The net realisable value is estimated based on the current market situation and historical experience. Any change in the assumptions would increase or decrease the amount of inventories written down or the related reversals of write-down and affect the Group’s financial position.

Useful lives of intangible assets

The intangible assets are amortised on the straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives on an annual basis to determine the related amortisation charges for its intangible assets. The estimation is based on the legal protection period, with consideration of market condition. Management will increase the amortisation charges when useful lives become shorter than previously estimated.

Useful lives of property, plant and equipment

The Group’s management determines the estimated useful lives and the related depreciation charge for the Group’s property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. OPERATING SEGMENT INFORMATION

For management purpose, the Group has only one reportable operating segment, which is the development, production, marketing and sale of medical products.

Geographical information

(a) Revenue from external customers

	2021 RMB'000	2020 RMB'000
Mainland China	7,353	5,448
Other regions	23,808	6,584
	31,161	12,032

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2021 RMB'000	2020 RMB'000
Mainland China	29,385	15,613
Other countries/regions	51,426	179,700
	80,811	195,313

The non-current asset information above is based on the locations of the assets.

Information about major customers

Revenue from each of the major customers which amounted to 10% or more of the Group's revenue during the reporting period is set out below:

	2021 RMB'000	2020 RMB'000
Customer A	5,173	–
Customer B	4,754	84
Customer C	2,146	5,324
Customer D	250	2,173

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

Revenue from contracts with customers

(a) Disaggregated revenue information

	2021 RMB'000	2020 RMB'000
Type of goods		
Sale of medical products	31,161	12,032
Timing of revenue recognition		
Goods transferred at a point in time	31,161	12,032

(b) Performance obligation

The performance obligation is satisfied upon delivery of the goods and invoice and payment is generally due within 30 to 90 days from the invoice date.

	2021 RMB'000	2020 RMB'000
Other income		
Bank interest income	2,607	964
Government grants*	405	395
	3,012	1,359
Gains		
Gain on disposal of an intangible asset	9,727	–
Foreign exchange gains, net	633	–
Others	30	–
	10,390	–
	13,402	1,359

* Government grants have been received from the PRC local government authorities to support the subsidiaries' research and development activities. There are no unfulfilled conditions related to these government grants.

NOTES TO FINANCIAL STATEMENTS

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6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold		12,385	5,154
Research and development costs (excluding related employee benefit expenses, depreciation and amortisation)		374,159	78,507
Depreciation of property, plant and equipment	13	2,083	1,426
Depreciation of right-of-use assets	14	6,632	3,462
Amortisation of intangible assets	15	6,991	12,951
Lease payments not included in the measurement of lease liabilities	14	695	940
Listing expenses (including auditor's remuneration)		37,192	8,641
Fair value changes of convertible redeemable preferred shares	23	462,436	591,385
Fair value changes of convertible loans		—	(1,689)
Fair value changes of derivative financial instruments	24	(34,454)	20,746
Employee benefit expense (excluding directors' and chief executive's remuneration (<i>note 8</i>)):			
Wages, salaries and welfare		100,666	67,956
Pension scheme contributions		7,750	768
Staff welfare expenses		8,799	3,229
Share-based payment expenses		20,770	6,119
		137,985	78,072
Foreign exchange differences, net		(633)	470
Write-down of inventories to net realisable value		—	1,117

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 RMB'000	2020 RMB'000
Transaction cost for issuance of the Company's convertible redeemable preferred shares	—	79
Interest on bank loans	2,272	3,401
Interest on lease liabilities (<i>note 14</i>)	807	393
	3,079	3,873

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021 RMB'000	2020 RMB'000
Fees	485	545
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	4,421	3,624
Pension scheme contributions	128	4
Share-based payment expenses	5,749	5,036
	10,298	8,664
	10,783	9,209

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 27 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2021 RMB'000	2020 RMB'000
Dr. Richard James Gregory*	194	–
Mr. Peng Kuan Chan**	97	–
Mr. James Arthur Geraghty*	194	–
	485	–

There were no emoluments payable to the independent non-executive directors during the year (2020: nil).

* Dr. Richard James Gregory and Mr. James Arthur Geraghty were non-executive directors of the Company in April 2020, July 2018, respectively. They were re-designated to independent non-executive directors of the Company in June 2021.

** Mr. Peng Kuan Chan was appointed as an independent non-executive director of the Company in June 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Non-executive directors, executive directors and the chief executive

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payment expenses RMB'000	Total remuneration RMB'000
2021					
Chief executive and executive directors:					
Dr. James Qun Xue	-	4,421	128	5,749	10,298
Non-executive directors:					
Dr. Kan Chen	-	-	-	-	-
Dr. Derek Paul Di Rocco	-	-	-	-	-
Mr. Xiao Le	-	-	-	-	-
	-	4,421	128	5,749	10,298

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payment expenses RMB'000	Total remuneration RMB'000
2020					
Chief executive and executive directors:					
Dr. James Qun Xue	-	3,624	4	2,722	6,350
Non-executive directors:					
Dr. Richard James Gregory	462	-	-	490	952
Mr. Bing Liu*	-	-	-	-	-
Mr. Zhihua Yu*	-	-	-	-	-
Mr. Jin Zhao**	-	-	-	-	-
Mr. Lefei Sun*	-	-	-	-	-
Dr. Derek Paul Di Rocco	-	-	-	-	-
Dr. Kan Chen	-	-	-	-	-
Mr. Xiao Le	-	-	-	-	-
Mr. James Arthur Geraghty	83	-	-	1,824	1,907
	545	3,624	4	5,036	9,209

* Mr. Bing Liu, Mr. Zhihua Yu and Mr. Lefei Sun were resigned from the Company in June 2021.

** Mr. Jin Zhao was resigned from the Company in February 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Non-executive directors, executive directors and the chief executive (Continued)

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2020: one director), details of whose remuneration are set out in note 8 to the financial statements. Details of the remuneration of the remaining four highest paid employees (2020: four) who are neither a director nor chief executive of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, bonuses, allowances and benefits in kind	12,402	10,670
Pension scheme contributions	196	4
Share-based payment expenses	4,590	4,361
	17,188	15,035

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

	2021	2020
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	–	2
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$4,500,001 to HK\$5,000,000	2	–
HK\$6,000,001 to HK\$6,500,000	–	1
HK\$7,000,001 to HK\$7,500,000	1	–
	4	4

During the reporting period, share options were granted to 4 non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

Hong Kong

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taiwan

The subsidiary incorporated in Taiwan is subject to income tax at a rate of 20% (2020: 20%) on the estimated assessable profits arising in Taiwan during the year.

Mainland China

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the "CIT Law"), the subsidiaries which operate in Mainland China are subject to CIT at a rate of 25% (2020: 25%) on the taxable income.

United States of America

The subsidiary incorporated in Delaware, the United States was subject to statutory United States federal corporate income tax at a rate of 21% (2020: 21%) during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to loss before tax at the statutory rate for the jurisdictions in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2021 RMB'000	2020 RMB'000
Loss before tax	(1,077,006)	(846,043)
Tax at the statutory tax rate of 25%	(269,252)	(211,511)
Effect of tax rate differences in other jurisdictions	145,958	147,565
Expenses not deductible for tax	34,084	28,879
Additional deductible allowance for qualified research and development costs	(2,600)	(152)
Tax losses not recognised	91,810	48,213
Utilisation of previously unrecognised tax losses	–	(12,994)
Tax charge at the Group's effective tax rate	–	–

The Group had tax losses of RMB420,853,000 and RMB205,245,000 for the years ended 31 December 2021 and 2020, respectively, out of which the tax losses in Mainland China are available for a maximum of ten years for offsetting against future taxable profits of the companies in which the losses arose, while the tax losses incurred by overseas entities other than the one in Taiwan can be carried forward permanently to offset against the future taxable profits of these companies in which the losses arose. The tax losses incurred by the entity in Taiwan can be carried forward for a maximum of ten years. The Group's entities in Mainland China had tax losses of RMB265,360,000 and RMB55,151,000 for the years ended 31 December 2021 and 2020, respectively. The Group's overseas entities had tax losses of RMB155,493,000 and RMB150,094,000 for the years ended 31 December 2021 and 2020, respectively.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

NOTES TO FINANCIAL STATEMENTS

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11. DIVIDENDS

No dividends have been declared and paid by the Company for the year ended 31 December 2021 (2020: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 94,241,487 (after adjusted for the effect of the Capitalisation issue) in issue during the year (2020: 68,595,669). The share subdivision was treated as having been in issue for the whole year and also included in the loss per share calculation of the comparative period presented so as to give a comparable result.

The calculation of the diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2021 (2020: nil) as the impact of the convertible redeemable preferred shares, warrants, convertible loans and share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	2021 RMB'000	2020 RMB'000
Loss		
Loss attributable to owners of the parent, used in the basic loss per share calculation:	(1,077,006)	(846,043)
	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	94,241,487	68,595,669

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT

	Electronic equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2021					
At 1 January 2021:					
Cost	1,893	1,383	469	5,110	8,855
Accumulated depreciation	(994)	(804)	(407)	(2,624)	(4,829)
Net carrying amount	899	579	62	2,486	4,026
At 1 January 2021, net of accumulated depreciation					
	899	579	62	2,486	4,026
Additions	808	1,227	–	6,210	8,245
Disposals	(91)	(533)	–	–	(624)
Depreciation provided during the year	(474)	(387)	(39)	(1,183)	(2,083)
At 31 December 2021, net of accumulated depreciation					
	1,142	886	23	7,513	9,564
At 31 December 2021:					
Cost	2,491	1,834	469	11,320	16,114
Accumulated depreciation	(1,349)	(948)	(446)	(3,807)	(6,550)
Net carrying amount	1,142	886	23	7,513	9,564
31 December 2020					
At 1 January 2020:					
Cost	1,335	1,228	469	3,252	6,284
Accumulated depreciation	(608)	(573)	(296)	(1,926)	(3,403)
Net carrying amount	727	655	173	1,326	2,881
At 1 January 2020, net of accumulated depreciation					
	727	655	173	1,326	2,881
Additions	558	155	–	1,858	2,571
Depreciation provided during the year	(386)	(231)	(111)	(698)	(1,426)
At 31 December 2020, net of accumulated depreciation					
	899	579	62	2,486	4,026
At 31 December 2020:					
Cost	1,893	1,383	469	5,110	8,855
Accumulated depreciation	(994)	(804)	(407)	(2,624)	(4,829)
Net carrying amount	899	579	62	2,486	4,026

NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of office and plant in its operations. Leases of plant generally have lease terms for 6 years, while office generally have lease terms between 1.25 to 5 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Office and plant RMB'000
As at 1 January 2020	5,981
Additions	9,025
Depreciation charge	(3,462)
As at 31 December 2020 and 1 January 2021	11,544
Additions	15,039
Currency translation differences	27
Depreciation charge	(6,632)
As at 31 December 2021	19,978

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	12,936	7,344
New leases	15,039	9,025
Accretion of interest recognised during the year	807	393
Currency translation differences	28	–
Payments	(7,577)	(3,826)
Carrying amount at 31 December	21,233	12,936
Analysed into:		
Current portion	7,882	5,519
Non-current portion	13,351	7,417

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. LEASES (CONTINUED)

The Group as a lessee (Continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	807	393
Depreciation charge of right-of-use assets	6,632	3,462
Expense relating to short-term leases	695	940
Total amount recognised in profit or loss	8,134	4,795

(d) The total cash outflow for leases are disclosed in note 29 to the financial statements.

15. INTANGIBLE ASSETS

	Patents and licences RMB'000	Software RMB'000	Total RMB'000
31 December 2021			
Cost at 1 January 2021, net of accumulated amortisation	179,569	174	179,743
Additions	–	245	245
Amortisation provided during the year	(6,958)	(33)	(6,991)
Disposal during the year	(121,569)	–	(121,569)
Currency translation differences	(159)	–	(159)
At 31 December 2021	50,883	386	51,269
At 31 December 2021			
Cost	58,631	457	59,088
Accumulated amortisation	(7,748)	(71)	(7,819)
Net carrying amount	50,883	386	51,269
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	41,633	150	41,783
Additions	150,871	41	150,912
Amortisation provided during the year	(12,934)	(17)	(12,951)
Currency translation differences	(1)	–	(1)
At 31 December 2020	179,569	174	179,743
At 31 December 2020			
Cost	190,248	212	190,460
Accumulated amortisation	(10,679)	(38)	(10,717)
Net carrying amount	179,569	174	179,743

NOTES TO FINANCIAL STATEMENTS

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16. INVENTORIES

	2021	2020
	RMB'000	RMB'000
Finished goods	13,448	553

17. TRADE RECEIVABLES

	2021	2020
	RMB'000	RMB'000
Trade receivables	9,141	7,040
Impairment	–	–
	9,141	7,040

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to certain major customers, there is a significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021	2020
	RMB'000	RMB'000
Within 3 months	9,141	7,040

The Group has applied the simplified approach to provide for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the ageing. Because there was no history of default of trade receivables, the Company assessed that the expected loss rate of trade receivables of the Group was very low. The Company also assessed that there was no significant change in the ECL rates during the year, mainly because there was no change of historical default rates of trade receivables and there were no significant changes in the economic conditions and performance and behaviour of the customers, based on which the ECL rates were determined. The directors of the Company are of the opinion that the ECL in respect of the balances of trade receivables is minimal.

No loss allowance for impairment of trade receivables is provided as at 31 December 2021 (2020: nil).

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31 December 2021

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2021 RMB'000	2020 RMB'000
Prepayments		24,544	4,683
Value-added tax recoverable		12,817	6,777
Loans to a director	19	–	9,198
Other receivables		5,946	1,990
		43,307	22,648
Current portion		43,307	22,648

Value-added tax recoverable represented the value-added tax that can be used for future deduction.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts, therefore, they were categorised in stage 1 at the end of each year. In calculating the ECL rate, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data. As at 31 December 2021 and 2020, the ECL for other receivables was assessed to be minimal.

19. LOANS TO A DIRECTOR

Loans to a director, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of information about Benefits of Directors) Regulation, are as follows:

Name	At 1 January 2020 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2020 and 2021 RMB'000	Maximum amount outstanding during the prior year RMB'000	At 31 December 2021 RMB'000	Security held RMB'000
Dr. James Qun Xue	8,965	9,198	9,198	9,264	–	None

The loans granted to director were interest-free and were repayable on demand. The loans have been fully repaid by Dr. James Qun Xue in February 2021.

NOTES TO FINANCIAL STATEMENTS

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20. CASH AND CASH EQUIVALENTS

	2021 RMB'000	2020 RMB'000
Cash and bank balances	427,030	99,808
Time deposits	318,785	260,996
Cash and cash equivalents	745,815	360,804
Denominated in:		
RMB	29,082	9,341
US\$	368,571	349,494
HK\$	344,492	1,392
TW\$	3,670	577
Cash and cash equivalents	745,815	360,804

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

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21. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each reporting period, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 6 months	43,607	46,713

The trade payables are non-interest-bearing and normally settled within 6 months.

22. OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Taxes other than income tax	1,477	995
Payroll payable	28,195	16,562
Payables and accruals for listing expenses	25,098	4,046
Payables for purchase of property, plant and equipment	1,271	751
Other payables	8,329	8,895
Accruals*	39,053	2,308
	103,423	33,557

* Accruals primarily consist of milestone payment of licences and selling expenses.

Other payables and accruals are non-interest-bearing and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. CONVERTIBLE REDEEMABLE PREFERRED SHARES

Convertible redeemable preferred shares (the “Preferred Shares”) issued by the Company are redeemable upon occurrence of certain future events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of an initial public offering of the Company’s shares, or when agreed by the holders of ordinary shares and the holders of each class of the Preferred Shares.

Since the date of incorporation, the Company has completed several rounds of financing arrangements by issuing Preferred Shares, details of which are included below:

	Date of issuance	Purchase price US\$/Share	Number of Preferred Shares	Denominated in US\$'000	Total consideration approximately equivalent to RMB'000 (note c)
Series A-1 Preferred Shares	26 November 2014	2.84	1,761,145	5,000	30,611
Series A-2 Preferred Shares	3 December 2015	3.26	2,748,067	8,222	52,385
Series B-1 Preferred Shares	7 February 2017	5.55	3,783,144	21,000	144,255
Series B-1 Preferred Shares	7 May 2017	5.55	522,703	2,901	20,000
Series B-2 Preferred Shares	21 February 2018	8.28	3,624,926	30,000	190,590
Series C-1 Preferred Shares	30 September 2018	10.39	3,283,518	34,100	233,227
Series C-2 Preferred Shares	30 September 2018	9.35	641,940	6,000	41,033
Series C-3 Preferred Shares	31 March 2019	10.39	577,745	6,000	40,352
Series C-4 Preferred Shares (note a)	10 March 2020	10.39	481,232	5,000	34,369
Series D-1 Preferred Shares	11 March 2020	11.82	4,754,717	56,201	395,917
Series E Preferred Shares	11 November 2020	14.77	2,914,015	43,040	284,365
Series E (Tranche 2) Preferred Shares	7 May 2021	14.77	1,028,436	15,190	98,246
Series D-3 Preferred Shares (note b)	21 May 2021	11.82	21,824	-	-
Series D-1 (Second Completion) Preferred Shares	24 May 2021	11.82	3,113,409	36,800	236,650

Note a: Pursuant to the shareholders’ agreements and the shareholders’ resolution passed on 25 February 2020, Yuanming Healthcare Holdings Limited (“Yuanming Healthcare”) converted the convertible loan into 481,232 shares of the Company’s Series C-4 convertible redeemable preferred shares.

b: In May 2021, China Equities HK Limited exercised its warrants for the issue of 21,824 preferred shares of the Company at nil consideration as disclosed in note 24.

c: Amounts in US\$ were translated into RMB at the exchange rate on the date of issuance.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

The key terms of all series of the Preferred Shares are summarised as follows:

Dividend rights

Subject to the Company's articles of association (the "Articles"), the directors may from time to time declare dividends (including interim dividends) and other distributions on shares (including the ordinary shares and the preferred shares) of the Company in issue and authorise payment of the same out of the funds of the Company lawfully available therefor. The declaration or payment of dividends and other distributions on shares shall obtain the affirmative written consent of the Series A directors, Series B directors, Series C directors, Series D directors and Series E directors. The holders of the Preferred Shares shall be entitled to receive their Pro Rata Share (see definition below) of the dividends as declared by the board of directors of the Company (the "Board").

No dividend or other distributions, whether in cash, in property or in shares of the capital of the Company, shall be paid or declared on any other class or series of shares of the Company unless and until the dividend which should be paid to each holder of Series E Preferred Shares is first paid in full to each holder of Series E Preferred Shares.

Each holder of Series D Preferred Shares shall be entitled to receive its Pro Rata Share of the dividends prior and in preference to the holders of ordinary shares, the holders of Series A preferred shares, Series B preferred shares, and Series C preferred shares. After the Series D preferred dividends are paid to each holder of Series D preferred shares in full, the Company shall pay each of the ordinary shareholders, each holder of Series A preferred shares, Series B preferred shares and Series C preferred shares its Pro Rata Share of the dividends.

In the event that the Company shall declare a distribution other than in cash, each of the holders of Preferred Shares shall be entitled to a proportionate share of any such distribution as though such holders of Preferred Shares were holders of the number of ordinary shares into which their Preferred Shares are convertible as of the record date fixed upon the determination of the holders of ordinary shares entitled to receive such distribution. No dividends have been declared by the Company up to the date of this report.

"Pro Rata Share" of a specified quantity of shares for any shareholder means such number of shares which equals the specified quantity of shares multiplied by a fraction equal to (i) the number of ordinary shares then held by the relevant shareholder on an as-converted but otherwise non-diluted basis, divided by (ii) the total number of shares then held by all shareholders (calculated on an as-converted but otherwise non-diluted basis) then outstanding.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Conversion option

Each Preferred Share shall be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into such number of fully paid and non-assessable ordinary shares as is determined by dividing the Preferred Share's original issue price by the Preferred Share's conversion price in effect at the time of conversion.

Upon either (a) the occurrence of a qualified initial public offering by the Company (the "IPO"); or (b) the date and time, or the occurrence of an event, specified by mutual written consent of the holders of the ordinary shares and Preferred Shares, all outstanding Preferred Shares shall automatically be converted into ordinary shares, at the then effective Preferred Share conversion price; and such shares may not be reissued by the Company.

Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Company, or upon the occurrence of a Deemed Liquidation Event (see definition below) of the Company, whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the shareholders (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the shareholders of the Company as follows:

Firstly, each holder of the Series E Preferred Shares shall be entitled to receive for each Series E Preferred Share held by such holder, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of ordinary shares, the holders of Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series D Preferred Shares and any other class or series of shares by reason of their ownership of such shares, the amount equal to (i) the original issue price plus (ii) such amount as necessary to provide an annual compound interest rate of 5% of the original issue price calculated from the date of payment of the original issue price by such holder to the Group through the date of the holder's receipt of the Series E Preference Amount (as defined below), plus (iii) all declared but unpaid dividends and distributions on such Series E Preferred Shares (collectively, the "Series E Preference Amount").

Secondly, after the payment of the aggregate Series E Preference Amount has been made in full, each holder of the Series D Preferred Shares shall be entitled to receive for each Series D Preferred Share held by such holder, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of ordinary shares, the holders of Series A-1 Preferred Shares, Series A-2 Preferred Shares, Series B-1 Preferred Shares, Series B-2 Preferred Shares, Series C Preferred Shares and any other class or series of shares by reason of their ownership of such shares, the amount equal to (i) the original issue price plus (ii) annual compound internal rate of return of 5% of the original issue price calculated from the date of payment of the original issue price by such holder to the Group Companies through the date of the holder's receipt of the Series D Preference Amount (as defined below), plus (iii) all declared but unpaid dividends and distributions on such Series D Preferred Shares (collectively, the "Series D Preference Amount").

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Liquidation preferences (Continued)

Thirdly, after the payment of the aggregate Series E Preference Amount and aggregate Series D Preference Amount has been made in full, the holders of the Series C Preferred Shares shall be entitled to receive for each Series C Preferred Share held by such holder, prior and in preference to the remaining assets and funds of the Company available for distribution to the holders of ordinary shares, the holders of Series A-1 Preferred Shares, Series A-2 Preferred Shares, Series B-1 Preferred Shares, Series B-2 Preferred Shares and any other class or series of shares by reason of their ownership of such shares, the amount equal to (i) such holder's original issue price plus (ii) annual compound internal rate of return of 5% of the original issue price calculated from the date of payment of original issue price by such holder into the Group through the date of the holder's receipt of the Series C Preference Amount (as defined below), plus (iii) all declared but unpaid dividends and distributions on such Series C Preferred Shares (collectively, the "Series C Preference Amount").

Fourthly, after the payment of the aggregate Series E Preference Amount, aggregate Series D Preference Amount and aggregate Series C Preference Amount has been made in full, the holders of the Series B-2 Preferred Shares shall be entitled to receive for each Series B-2 Preferred Share held by such holder, prior and in preference to the remaining assets and funds of the Company available for distribution to the holders of ordinary shares, the holders of Series A-1 Preferred Shares, Series A-2 Preferred Shares, Series B-1 Preferred Shares and any other class or series of shares by reason of their ownership of such shares, the amount equal to (i) such holder's original issue price plus (ii) annual compound internal rate of return of 5% of the original issue price calculated from the date of payment of original issue price by such holder into the Group through the date of the holder's receipt of the Series B-2 Preference Amount (as defined below), plus (iii) all declared but unpaid dividends and distributions on such Series B-2 Preferred Shares (collectively, the "Series B-2 Preference Amount").

Fifthly, after the payment of the aggregate Series E Preference Amount, aggregate Series D Preference Amount, aggregate Series C Preference Amount and aggregate Series B-2 Preference Amount has been made in full, the holders of the Series B-1 Preferred Shares shall be entitled to receive for each Series B-1 Preferred Share held by such holder, prior and in preference to the remaining assets and funds of the Company available for distribution to the holders of ordinary shares, the holders of Series A-1 Preferred Shares, Series A-2 Preferred Shares and any other class or series of shares by reason of their ownership of such shares, the amount equal to (i) such holder's original issue price plus (ii) annual compound internal rate of return of 5% of the Original Issue Price calculated from the date of payment of the original issue price by such holder to the Group through the date of the holder's receipt of the Series B-1 Preference Amount (as defined below), plus (iii) all declared but unpaid dividends and distributions on such Series B-1 Preferred Shares (collectively, the "Series B-1 Preference Amount").

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Liquidation preferences (Continued)

Sixthly, after the payment of the aggregate Series E Preference Amount, aggregate Series D Preference Amount, aggregate Series C Preference Amount, aggregate Series B-2 Preference Amount and aggregate Series B-1 Preference Amount has been made in full, the holders of the Series A-1 Preferred Shares and the Series A-2 Preferred Shares shall be entitled to receive for each Series A-1 Preferred Share or Series A-2 Preferred Share held by such holder, prior and in preference to the remaining assets and funds of the Company available for distribution to the holders of ordinary shares by reason of their ownership of such shares, the amount equal to (i) such holder's original issue price plus (ii) annual compound internal rate of return of 5% of the original issue price calculated from the date of payment of the original issue price by such holder to the Group through the date of the holder's receipt of the Series A Preference Amount (as defined below), plus (iii) all declared but unpaid dividends and distributions on such Series A-1 Preferred Shares and Series A-2 Preferred Shares (collectively, the "Series A Preference Amount", together with the Series E Preference Amount, the Series D Preference Amount, Series C Preference Amount, the Series B-2 Preference Amount and the Series B-1 Preference Amount, the "Investor Preference Amount").

If the remaining assets and funds thus distributed among the holders of the same series of preferred shares shall be insufficient to permit the payment to such holders of the full Investor Preference Amount, then the entire remaining assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of such class or series of Preferred Shares in proportion to the amount that each such holder is otherwise entitled to receive.

After the payment of the Investor Preference Amount has been made in full, the remaining assets and funds of the Company legally available for distribution shall be distributed among all holders of ordinary shares and preferred shares on a pro rata and as-converted but otherwise non-diluted basis.

"Deemed Liquidation Event" is defined as: (a) any consolidation, amalgamation, scheme of arrangement or merger of any group companies with or into any other person or other reorganisation in which the shareholders or shareholders of such group companies immediately prior to such consolidation, amalgamation, merger, scheme of arrangement or reorganisation own less than fifty percent of such group company's voting power in the aggregate immediately after such consolidation, merger, amalgamation, scheme of arrangement or reorganisation, or any transaction or series of related transactions to which such group company is a party and in which in excess of fifty percent of such group company's voting power is transferred; (b) a transaction or series of related transactions in which a person, or a group of related persons, acquires from shareholders of the company, shares of the Company representing more than fifty percent of the outstanding voting power of the company; (c) a sale, transfer, lease or other disposition of all or substantially all of the assets of any group company (or any series of related transactions resulting in such sale, transfer, lease or other disposition of all or substantially all of the assets of such group company); and (d) the exclusive licensing of all or substantially all of any group company's intellectual property to a third party.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Redemption feature

At any time upon the occurrence of any of the Redeeming Events (see definition below), upon written request of any holders of any Preferred Shares, the Company is obliged to, either by itself or through its designee, repurchase, at the election of each redeeming shareholder, all or part of the outstanding Preferred Shares held by such redeeming holders.

The redemption price is equal to the higher of: (i) the Preferred Shares' applicable original issue price plus the annual rate of return on the original issue price at 10% per annum per share (calculated on the basis of 365 days per year, and if less than one year, on the actual number of days) from the original issue date of the Preferred Shares through the date when such redemption price is fully paid; and (ii) the amount of liquidation proceeds that the redeeming shareholder is entitled to receive pursuant to the terms of liquidation preference as if a liquidation event has occurred.

"Redeeming Events" is defined as any of the following events for the respective series of Preferred Shares.

For Series E Preferred Shares and Series D Preferred Shares, the "Redeeming Events" refers to any of the events: (i) if the IPO is not completed before the third (3rd) anniversary of the first Series D completion date; or (ii) any other investor requires the Company to redeem any of its shares in accordance with the shareholders agreement; or (iii) a material violation of criminal or other applicable laws by any group companies, the founder or the founder entity, and (A) such group company, founder or founder entity is convicted, or adjudicated or determined to have been in violation, by a governmental entity, or (B) such violation triggers an official investigation by a governmental entity and the investigation is not voluntarily cancelled or terminated by such governmental entity within six (6) months after commencement, and such violation has caused a material adverse effect on the Group as a whole or the founder and is not cured or remedied, if curable or remediable, by such group company, the founder or the founder entity within sixty (60) days of such violation.

For Series C Preferred Shares, the "Redeeming Events" refers to any of the events: (i) if the IPO is not completed before the third (3rd) anniversary of the first Series D completion date; or (ii) if the group companies or their sublicensees have not obtained approval of NMPA for commercial sales of their neratinib product upon the fifth (5th) anniversary of the first Series C completion date; or (iii) departure of the founder from the Group; or (iv) a material violation of applicable laws by the Group in conducting the restructuring which has caused or will cause a Material Adverse Effect or has materially and adversely affected or will materially and adversely affect the IPO.

For Series A-1 Preferred Shares, Series A-2 Preferred Shares, Series B-1 Preferred Shares or Series B-2 Preferred Shares, the "Redeeming Events" refers to the event when if the IPO is not completed before 31 December 2023.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Presentation and classification

The Group does not bifurcate any embedded derivatives from the host instruments and has designated the entire instruments as financial liabilities at fair value through profit or loss. Any directly attributable transaction costs are recognised as finance costs in profit or loss. Subsequent to initial recognition, the fair value change of the Preferred Shares is recognised in profit or loss except for the portion attributable to credit risk change which shall be recognised in other comprehensive income, if any. The directors of the Company considered that there was no material credit risk change during the year.

The movements of the convertible redeemable preferred shares are set out below:

	Series A Preferred Shares RMB'000	Series B Preferred Shares RMB'000	Series C Preferred Shares RMB'000	Series D Preferred Shares RMB'000	Series E Preferred Shares RMB'000	Total RMB'000
At 1 January 2020	193,069	433,576	347,890	-	-	974,535
Issue	-	-	-	381,341	284,365	665,706
Converted from convertible loans	-	-	32,152	-	-	32,152
Changes in fair value	176,568	250,505	83,042	80,609	661	591,385
Currency translation differences	(12,489)	(28,048)	(24,426)	(28,162)	(3,532)	(96,657)
At 31 December 2020 and 1 January 2021	357,148	656,033	438,658	433,788	281,494	2,167,121
Issue	-	-	-	236,653	98,246	334,899
Converted from exercise of warrants (note 24)	-	-	-	1,659	-	1,659
Changes in fair value	99,981	148,621	67,685	125,464	20,685	462,436
Converted to ordinary shares upon the completion of the IPO	(448,660)	(789,099)	(495,944)	(785,038)	(392,268)	(2,911,009)
Currency translation differences	(8,469)	(15,555)	(10,399)	(12,526)	(8,157)	(55,106)
At 31 December 2021	-	-	-	-	-	-

The Group applied the Backsolve Approach method to determine the underlying equity value of the Company and adopted the option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions are set out below:

	2020
Risk-free interest rate	0.16%
Lack of marketability discount	6.67%~29.54%
Volatility	45.02%

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Presentation and classification (Continued)

The Group estimated the risk-free interest rate based on the yield of the United States Government Bond or Hong Kong Bond as of each valuation date with maturity equal to the period from the respective appraisal dates to the expected liquidation date. The lack of marketability discount was estimated based on the option-pricing method. Under the option-pricing method, the cost of a put option, which can theoretically hedge the price change before the privately held share can be sold, was considered as a basis to determine the discount for lack of marketability. The volatility was estimated based on historical volatility of comparable companies as of the valuation date. Probability weight under each of the redemption features and liquidation preferences were based on the Group's best estimates.

Management considered that fair value changes of the Preferred Shares that are attributable to changes of credit risk of these instruments are not material.

On 10 December 2021, the Company was successfully listed on the Stock Exchange and made an offering of 56,251,000 shares at a price of HK\$12.18 per share. All Preferred Shares were converted into ordinary shares upon completion of the IPO on 10 December 2021. The fair value of each Preferred Share after capitalisation issue on the conversion date is the offer price in the global offering.

The completion of the successful IPO has triggered the automatic termination of all the special rights granted to the shareholders of Preferred Shares.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Warrants RMB'000
At 1 January 2020	1,569
Issue	15,356
Changes in fair value	20,746
Currency translation differences	(1,199)
At 31 December 2020	36,472
Converted into convertible redeemable preferred shares	(1,659)
Changes in fair value	(15,132)
Derecognised	(19,322)
Currency translation differences	(359)
At 31 December 2021	–

The derivative financial instruments represented warrants issued by the Company to the holders who will be entitled to exercise the warrants in exchange for the Company's Preferred Shares. The warrants are measured at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

On 30 September 2019, the Company entered into agreements with China Equities HK Limited., a wholly-owned subsidiary of SPD Silicon Valley Bank (“SSVB”) for the issuance of warrants. In accordance with the agreements, China Equities HK Limited would be entitled to subscribe the warrants after the banking facility granted by SSVB was utilised by the Company. As at 31 December 2020, the number of warrants issued was 68,596 shares. The warrants may be exercised either at US\$10.39 per warrant share for cash or, if the fair market value of the warrant shares exceeds the exercise price and effect a cashless exchange of the warrants for a certain number of warrant shares to be issued according to the formula stipulated in the agreement, in whole or in part, at the discretion of the relevant warrant holder at any time within 7 years commencing from the date of issuance of the respective warrants. In May 2021, China Equities HK Limited exercised the warrants for the issue of 21,824 preferred shares of the Company at nil consideration.

On 10 March 2020, the Company entered into agreements with Series D-1 Preferred Shares investors for the issuance of warrants. In accordance with the agreements, investors of Series D-1 Preferred Shares would be entitled to subscribe the warrants after the next series preferred shares financing. As at 31 December 2020, the number of warrants issued was 1,538,482. The warrants may be exercised at an adjusted price per warrant share, in whole or in part, at the discretion of the relevant warrant holder at any time 3 months after the next series preferred share financing or twenty-one months after the completion of Series D-1 Preferred Share financing. In May 2021, investors of Series D-1 Preferred Shares agreed to terminate their rights to exercise warrants in writing and the corresponding warrants were derecognised.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2021			2020		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
Current						
Lease liabilities	4.75%~ 5.13%	2022	7,882	4.75%~ 5.13%	2021	5,519
Bank loans – unsecured	–	–	–	5.30%	2021	8,500
Current portion of long term bank loans – secured (iv)	5.50%~ 12.18%	2022	30,868	10.99%~ 12.18%	2021	13,814
			38,750			27,833
Non-current						
Lease liabilities	4.75%~ 5.13%	2023-2027	13,351	4.75%~ 5.13%	2022-2023	7,417
Bank loans – secured (iv)	–	–	–	10.99%~ 12.18%	2022	11,645
			13,351			19,062
			52,101			46,895

NOTES TO FINANCIAL STATEMENTS

31 December 2021

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2021 RMB'000	2020 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	30,868	22,314
In the second year	–	11,645
	30,868	33,959
Other borrowings repayable:		
Within one year	7,882	5,519
In the second year	6,811	4,315
In the third to fifth years, inclusive	4,285	3,102
Beyond five years	2,255	–
	21,233	12,936
	52,101	46,895

Notes:

- (i) The bank borrowings bear fixed nominal interest rates ranging from 5.50% to 6.50% per annum.
- (ii) As at 31 December 2021, except for secured bank borrowings of RMB13,827,000 (US\$2,169,000) were denominated in US\$, all the bank borrowings were denominated in RMB.
- (iii) The carrying amounts of the current bank borrowings approximate to their fair values.
- (iv) Pursuant to the agreements entered into by CANbridge BIOMED and CANbridge CARE Pharma, two subsidiaries of the Company, with SSVB, respectively, CANbridge BIOMED and CANbridge CARE Pharma have charged all of their assets in favour of SSVB by way of first fixed charge and floating charge as security for the payment of the bank borrowings from SSVB. Upon the occurrence of any event of default as defined in the agreements, SSVB may enforce to take possession and control of all the charged assets under the agreements and appoint a receiver over the charged assets, in which event CANbridge BIOMED and CANbridge CARE Pharma may be required to give up possession, ownership and control of their assets. As at 31 December 2021, there was no occurrence of any default by CANbridge BIOMED and CANbridge CARE Pharma. The Company also provided guarantees to these two subsidiaries for the bank borrowings from SSVB.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

26. SHARE CAPITAL

The Company was incorporated on 30 January 2018 with authorised share capital of US\$50,000 divided into 500,000,000 ordinary shares with a par value of US\$0.0001 each. On 10 December 2021, the authorised share capital of the Company was changed to US\$50,000 divided into 5,000,000,000 shares, with a par value of US\$0.00001 each.

Issued and fully paid:

	As at 31 December 2021		
	Number of shares in issue	Share capital USD'000	RMB equivalent RMB'000
Ordinary shares of USD0.00001 each	424,191,920	4	28

	As at 31 December 2020		
	Number of shares in issue	Share capital USD'000	RMB equivalent RMB'000
Ordinary shares of USD0.0001 each	7,356,238	1	5

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 31 December 2019 and 1 January 2020		6,851,266	5	–	5
Share options exercised	(a)	504,972	–*	16,783	16,783
At 31 December 2020 and 1 January 2021		7,356,238	5	16,783	16,788
Share options exercised	(b)	181,033	–*	8,461	8,461
Capitalisation Issue	(c)	67,835,439	–	–	–
Conversion of preferred shares upon the completion of IPO	(d)	292,568,210	19	2,910,990	2,911,009
Issue of shares from IPO	(e)	56,251,000	4	559,747	559,751
Share issue expenses		–	–	(34,955)	(34,955)
At 31 December 2021		424,191,920	28	3,461,026	3,461,054

* Less than RMB1,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

26. SHARE CAPITAL (CONTINUED)

Notes:

- (a) The subscription rights attaching to 504,972 share options were exercised at the subscription price (note 27), resulting in the issue of 504,972 shares with a par value of US\$0.0001 each for a total cash consideration of RMB1,870,000. An amount of RMB14,913,000 was transferred from the share-based payment reserve to share premium upon the exercise of the share options.
- (b) The subscription rights attaching to 181,033 share options were exercised at the subscription price (note 27), resulting in the issue of 181,033 shares with a par value of US\$0.0001 each for a total cash consideration of RMB4,053,000. An amount of RMB4,408,000 was transferred from the share-based payment reserve to share premium upon the exercise of the share options.
- (c) Pursuant to the written resolution of the then shareholders of the Company passed on 18 November 2021, and subject to the share premium account of the Company being credited as a result of the issue of the offer shares pursuant to the IPO, a total of 67,835,439 shares credited as fully paid at par were allotted and issued on 10 December 2021 to the holders of shares whose names appear on the register of members of the Company on the day preceding 10 December 2021 in proportion to their then existing shareholdings in the Company (on the basis that each Preferred Share was converted into one ordinary share) by capitalising the relevant sum from the share premium account of the Company.
- (d) All preferred shares were automatically converted into 29,256,821 ordinary shares (equivalent to 292,568,210 shares after adjusted for the effect of the Capitalisation Issue) upon the successful IPO of the Company on 10 December 2021.
- (e) In connection with the Company's IPO, 56,251,000 ordinary shares of US\$0.00001 each were issued at a price of HK\$12.18 per share for a total cash consideration, before deducting the listing expenses of approximately RMB34,955,000.

27. SHARE OPTION SCHEME

The Company operates a share-based payment scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, the Group's employees and consultants.

The 2016 Plan

A share incentive plan (the "2016 Plan") became effective in April 2016 when the board of directors of CANbridge Beijing approved the 2016 Plan. The maximum aggregate number of shares that may be issued under this plan is 1,250,000 ordinary shares of CANbridge Beijing. The 2016 Plan permits the awards of share options through a limited liability partnership (the "LLP"). The participants will indirectly hold share options of CANbridge Beijing through direct holding of the LLP's interest. As part of the red-chip restructuring of the Company and its subsidiaries, the New Plan (see definition below) was adopted to replace the 2016 Plan and the shares were granted to replace the shares of CANbridge Beijing previously granted.

The New Plan

A new share incentive plan (the "New Plan") became effective on 25 July 2019 when the Board and the shareholders approved the New Plan. The New Plan will continue in effect for a term of ten years unless sooner terminated. The maximum number of shares that may be subject to the awards granted and sold under this New Plan is 2,855,650 shares, which comprises 1,250,000 shares reserved under the New Plan to substitute the shares of CANbridge Beijing previously granted under the 2016 Plan and 1,605,650 additional shares.

NOTES TO FINANCIAL STATEMENTS

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27. SHARE OPTION SCHEME (CONTINUED)

The New Plan (Continued)

In July 2021, as approved by the board of directors, the Company amended the New Plan to increase the maximum number of shares that may be subject to the awards to 5,454,923 shares. The Company granted 2,867,886 shares (without taking into account the effect of capitalisation issue) options under the New Plan to 152 employees and 7 non-employee consultants, respectively.

The share options have vesting terms in schedule from the grant date over 4-5 years on the condition that the directors and employees remain in service and fulfil certain performance conditions of individuals.

For those awards, evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based payment expenses are then adjusted to reflect the revision of original estimates.

The exercise prices and exercise periods of the share options outstanding as at the end of each reporting period are as follows:

	Number of share options	Weighted average exercise price per share option* RMB
At 1 January 2021	2,096,677	3.32
Granted during the year	2,867,886	6.23
Forfeited during the year	(149,012)	3.90
Exercised during the year	(181,033)	3.23
Capitalisation Issue	41,710,662	4.81
At 31 December 2021	46,345,180	4.81

	Number of share options	Weighted average exercise price per share option RMB
At 1 January 2020	2,544,540	25.49
Granted during the year	464,000	48.34
Forfeited during the year	(406,891)	36.72
Exercised during the year	(504,972)	3.81
At 31 December 2020	2,096,677	33.20

* Subject to adjust for the effect of the Capitalisation Issue, the authorised share capital of the Company was changed to US\$50,000 divided into 5,000,000,000 shares, with a par value of US\$0.00001 each (2020: US\$50,000 divided into 500,000,000 ordinary shares with a par value of US\$0.0001 each). Pursuant to the terms of the New Plan, the number of ordinary shares covered by each outstanding share option, and the number of ordinary shares which have been authorized for issuance under the New Plan but as to which share options have yet been granted or which have been returned to the New Plan upon cancellation or expiration, as well as the price per ordinary share covered by each outstanding share option, will be proportionately adjusted for any increase or decrease in the number of issued ordinary shares.

NOTES TO FINANCIAL STATEMENTS

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27. SHARE OPTION SCHEME (CONTINUED)

The New Plan (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

Year ended 31 December 2021

Number of options	Exercise price	Exercise period
50,000	–	2022
350,000	RMB0.10	2016-2025
300,000	RMB0.15	2017-2026
795,500	RMB0.54	2017-2029
250,000	RMB0.54	2020-2033
60,000	RMB0.62	2017-2027
500,000	RMB1.27	2019-2030
1,020,280	US\$0.19	2019-2032
10,003,910	US\$0.52	2019-2030
3,140,630	US\$0.59	2020-2033
300,000	US\$0.71	2020-2034
19,049,860	US\$0.75	2021-2035
10,525,000	US\$1.18	2022-2036
46,345,180		

Year ended 31 December 2020

Number of options	Exercise price	Exercise period
5,000	–	2022
85,000	RMB1.00	2016-2025
30,000	RMB1.50	2017-2026
99,725	RMB5.38	2017-2029
50,000	RMB5.44	2020-2033
6,000	RMB6.22	2017-2027
50,250	RMB12.70	2019-2030
102,029	US\$1.85	2019-2032
1,089,673	US\$5.20	2019-2030
350,000	US\$5.89	2020-2033
30,000	US\$7.06	2020-2034
199,000	US\$7.53	2021-2034
2,096,677		

NOTES TO FINANCIAL STATEMENTS

31 December 2021

27. SHARE OPTION SCHEME (CONTINUED)

Fair value of share options

The fair value of equity-settled share options granted was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the key assumptions that the model used.

	2021	2020
Expected volatility (%)	40.21-51.27	48.49-56.53
Risk-free interest rate (%)	0.08-1.61	0.15-0.89
Expected life of options (year)	1.06-12.32	1.0-12.56
Weighted average share price (US\$ per share)	11.48-15.62	11.85

The risk-free interest rate was based on the yield of the Hong Kong Bond as of each valuation date. The volatility was estimated based on historical volatility of comparable companies as of the valuation date. The expected life of the options is based on the historical data over the past years and is not necessarily indicative of the exercise patterns that may occur.

The Group recognised share-based payment expenses of RMB30,510,000 for the year ended 31 December 2021 (2020: RMB14,655,000).

As at 31 December 2021, the Company had 46,345,180 share options outstanding under the New Plan. The exercise in full of the outstanding share options would, under the present capital structure of the company, result in the additional share capital of RMB3,000.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(a) Contributed surplus

Contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganization undertaken by the Company in preparation for the listing ("Reorganisation") over the nominal value of the Company's shares issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

28. RESERVES (CONTINUED)

(b) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies of which the functional currency is not RMB. The reserve is dealt with in accordance with the accounting policy set out in note 2.4.

(c) Share premium

The share premium account represents the amount paid by shareholders for capital injection in excess of its nominal value.

(d) Share-based payments reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised or be transferred to retained profits should the related options expire or be forfeited.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to equity of RMB2,911,009,000 due to the conversion of convertible redeemable preferred shares to ordinary shares as disclosed in note 23.

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB15,039,000 (2020: RMB9,025,000) and RMB15,039,000 (2020: RMB9,025,000), respectively, in respect of lease arrangements for offices and plant.

NOTES TO FINANCIAL STATEMENTS

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29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings RMB'000	Derivative financial instruments RMB'000	Lease liabilities RMB'000	Convertible loans RMB'000	Convertible redeemable preferred shares RMB'000
At 1 January 2021	33,959	36,472	12,936	-	2,167,121
Changes from financing activities	(5,124)	-	(7,577)	-	334,899
Converted to convertible redeemable preferred shares	-	(1,659)	-	-	1,659
Change in fair value	-	(34,454)	-	-	462,436
New lease	-	-	15,039	-	-
Interest expense	2,272	-	807	-	-
Converted to ordinary shares	-	-	-	-	(2,911,009)
Currency translation differences	(239)	(359)	28	-	(55,106)
At 31 December 2021	30,868	-	21,233	-	-
At 1 January 2020	26,466	1,569	7,344	36,465	974,535
Changes from financing activities	4,722	15,356	(3,826)	(2,429)	665,706
Converted to convertible redeemable preferred shares	-	-	-	(32,152)	32,152
Change in fair value	-	20,746	-	(1,689)	591,385
New lease	-	-	9,025	-	-
Interest expense	3,401	-	393	-	-
Currency translation differences	(630)	(1,199)	-	(195)	(96,657)
At 31 December 2020	33,959	36,472	12,936	-	2,167,121

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Within operating activities	(695)	(940)
Within financing activities	(7,577)	(3,826)
	(8,272)	(4,766)

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. RELATED PARTY TRANSACTIONS

(a) Name and relationship

The directors of the Group are of the view that the following companies are related parties that had transactions or balances with the Group during the year:

Name of related parties	Relationship with the Group
Dr. James Qun Xue	Key management personnel of the entity or its parent
Hd Biosciences Co., Ltd.	An entity controlled by one of the Company's shareholders
Shanghai Medkey Med-Tech Development Co.,Ltd	An entity controlled by one of the Company's shareholders
WuXi AppTec (Suzhou) Co., Ltd.	An entity controlled by one of the Company's shareholders

(b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following significant transactions with related parties:

	Notes	2021 RMB'000	2020 RMB'000
Purchase of services:			
Wuxi AppTec (Suzhou) Co., Ltd.	(i)	4,549	1,421
Shanghai Medkey Med-Tech Development Co.,Ltd	(ii)	1,881	–
Hd Biosciences Co., Ltd.		27	–

Notes:

(i) Wuxi AppTec (Suzhou) Co., Ltd. provided Contract Research Organization ("CRO") services to the Group.

(ii) Shanghai Medkey Med-Tech Development Co.,Ltd provided CRO services to the Group.

The pricing was determined according to the published prices and conditions similar to those offered to the major customers of the suppliers.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Outstanding balances with related parties

	Notes	2021 RMB'000	2020 RMB'000
Amounts due from related parties:			
Dr. James Qun Xue	(iii)	–	9,198
Amounts due to related parties:			
Shanghai Medkey Med-Tech Development Co.,Ltd		627	–
Wuxi AppTec (Suzhou) Co., Ltd.		1,617	1,549

Notes:

- (iii) In 2018, the Company entered into a loan agreement with Dr. James Qun Xue to lend fund to him for his settlement of taxes arising from the Reorganisation. According to the agreements, such lendings were not secured, interest-free and repayable on demand.

(d) Compensation of key management personnel of the Group:

	2021 RMB'000	2020 RMB'000
Short term employee benefits	4,421	3,624
Post-employment benefits	128	4
Share-based payments	5,749	5,145
Total compensation paid to key management personnel	10,298	8,773

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2021

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	9,141
Financial assets included in prepayments, other receivables and other assets	5,946
Cash and cash equivalents	745,815
	760,902

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	43,607
Lease liabilities	21,233
Financial liabilities included in other payables and accruals	34,698
Interest-bearing bank and other borrowings	30,868
	130,406

NOTES TO FINANCIAL STATEMENTS

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31. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2020

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	7,040
Financial assets included in prepayments, other receivables and other assets	11,188
Cash and cash equivalents	360,804
	<u>379,032</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Convertible redeemable preferred shares	2,167,121	–	2,167,121
Derivative financial instruments	36,472	–	36,472
Trade payables	–	46,713	46,713
Lease liabilities	–	12,936	12,936
Financial liabilities included in other payables and accruals	–	13,692	13,692
Interest-bearing bank and other borrowings	–	33,959	33,959
	<u>2,203,593</u>	<u>107,300</u>	<u>2,310,893</u>

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to the fair values, are as follows:

	Carrying amounts		Fair values	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Financial liabilities				
Non-current portion of Interest- bearing bank borrowings	–	11,645	–	12,685

NOTES TO FINANCIAL STATEMENTS

31 December 2021

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, and the current portion of Interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as of year ended 31 December 2021.

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial liabilities at fair value through profit or loss:				
Convertible redeemable preferred shares	–	–	2,167,121	2,167,121
Derivative financial instruments	–	–	36,472	36,472
	–	–	2,203,593	2,203,593

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32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

Liabilities measured at fair value: (Continued)

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at the end of each of the Relevant Periods:

31 December 2020

	Valuation technique	Significant unobservable inputs	Range of inputs	Sensitivity of fair value to the input
Convertible redeemable preferred shares	Backsolve method	Volatility	45.02%	Increase of 1% would result in decrease in fair value by RMB11,546,000; Decrease of 1% would result in increase in fair value by RMB11,691,000.
Derivative financial instruments	Backsolve method	Volatility	45.02%	Increase of 1% would result in decrease in fair value by RMB124,000; Decrease of 1% would result in increase in fair value by RMB142,000.
Convertible redeemable preferred shares	Backsolve method	Probability for IPO	80%	Increase of 1% would result in decrease in fair value by RMB989,000; Decrease of 1% would result in increase in fair value by RMB989,000.
Derivative financial instruments	Backsolve method	Probability for IPO	80%	Increase of 1% would result in decrease in fair value by nil; Decrease of 1% would result in increase in fair value by nil.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, convertible loans, derivative financial instruments and convertible redeemable preferred shares. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Board and senior management meet periodically to analyse and formulate measures to manage the Group's exposure to these risks.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The Group has transactional currency exposure. Such exposure arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US\$, HK\$ and TW\$ exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair values of monetary assets and liabilities).

Increase/(decrease) in loss before tax:

	2021 RMB'000	2020 RMB'000
Increase in the US\$ rate by 5%	(18,362)	(17,475)
Decrease in the US\$ rate by 5%	18,362	17,475
Increase in the HK\$ rate by 5%	(17,225)	(70)
Decrease in the HK\$ rate by 5%	17,225	70
Increase in the TW\$ rate by 5%	(184)	(29)
Decrease in the TW\$ rate by 5%	184	29

Credit risk

The carrying amounts of cash and bank balances, trade receivables, other receivables and other financial assets represent the Group's maximum exposure equal to credit risk in relation to the financial assets.

The Group expects that there is no significant credit risk associated with cash and bank balances since they are substantially held in reputable state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade receivable periodically and management also has monitoring procedures to ensure follow-up action is taken to recover overdue receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group also expects that there is no significant credit risk associated with other receivables and other financial assets since the counterparties to these financial assets have no history of default.

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2021

	12-month	Lifetime ECLs			Total
	ECLs				
	Stage 1	Stage 2	Stage 3	Simplified	
	RMB'000	RMB'000	RMB'000	approach	RMB'000
				RMB'000	
Trade receivables*	–	–	–	9,141	9,141
Financial assets included in prepayments, other receivables and other assets					
– Normal**	5,946	–	–	–	5,946
Cash and cash equivalents – Not yet past due	745,815	–	–	–	745,815
	751,761	–	–	9,141	760,902

As at 31 December 2020

	12-month	Lifetime ECLs			Total
	ECLs				
	Stage 1	Stage 2	Stage 3	Simplified	
	RMB'000	RMB'000	RMB'000	approach	RMB'000
				RMB'000	
Trade receivables*	–	–	–	7,040	7,040
Financial assets included in prepayments, other receivables and other assets					
– Normal**	11,188	–	–	–	11,188
Cash and cash equivalents – Not yet past due	360,804	–	–	–	360,804
	371,992	–	–	7,040	379,032

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 17 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets are considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets are considered to be "doubtful".

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2021				
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Above 5 years RMB'000	Total RMB'000
Trade payables	43,607	–	–	–	43,607
Financial liabilities included in other payables and accruals	34,698	–	–	–	34,698
Interest-bearing bank borrowings	–	30,868	–	–	30,868
Lease liabilities	–	7,882	15,235	1,356	24,473
	78,305	38,750	15,235	1,356	133,646

	2020				
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Above 5 years RMB'000	Total RMB'000
Trade payables	46,713	–	–	–	46,713
Financial liabilities included in other payables and accruals	13,692	–	–	–	13,692
Interest-bearing bank borrowings	11,900	10,414	12,553	–	34,867
Convertible redeemable preferred shares (note a)	–	–	1,662,006	–	1,662,006
Derivative financial instruments	–	171,620	–	–	171,620
Lease liabilities	–	5,519	8,641	–	14,160
	72,305	187,553	1,683,200	–	1,943,058

Note:

- (a) The liquidity risk of convertible redeemable preferred shares is the original issue price of the Preferred Shares plus the respective predetermined interest (the "redemption amount"), assuming that there is no consummation of public listing of the Company's shares before certain dates as agreed by the holders of ordinary shares and the holders of each class of the Preferred Shares and the holders of the Preferred Shares request the Company to redeem all of the Preferred Shares.

NOTES TO FINANCIAL STATEMENTS

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2021.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	78,729	48,219
Total non-current assets	78,729	48,219
CURRENT ASSETS		
Due from subsidiaries	1,783,320	1,402,382
Prepayments, other receivables and other assets	–	3,096
Cash and cash equivalents	669,059	228,918
Total current assets	2,452,379	1,634,396
CURRENT LIABILITIES		
Due to subsidiaries	152,129	152,676
Other payables and accruals	23,485	4,063
Total current liabilities	175,614	156,739
NET CURRENT ASSETS	2,276,765	1,477,657
TOTAL ASSETS LESS CURRENT LIABILITIES	2,355,494	1,525,876
NON-CURRENT LIABILITIES		
Convertible redeemable preferred shares	–	2,167,121
Derivative financial instruments	–	36,472
Total non-current liabilities	–	2,203,593
Net assets/(liabilities)	2,355,494	(677,717)
EQUITY		
Share capital	28	5
Reserves (note)	2,355,466	(677,722)
Total equity/(deficit)	2,355,494	(677,717)

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31 December 2021

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share capital RMB'000	Share premium* RMB'000	Share-based payments reserve* RMB'000	Accumulated losses* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000
At 1 January 2020	5	–	33,494	(116,322)	(8,516)	(91,339)
Loss for the year	–	–	–	(631,904)	–	(631,904)
Exchange realignment	–	–	–	–	29,001	29,001
Total comprehensive income for the year	–	–	–	(631,904)	29,001	(602,903)
Issue of shares from exercise of share options	–	16,783	(14,913)	–	–	1,870
Share-based payments	–	–	14,655	–	–	14,655
At 31 December 2020 and 1 January 2021	5	16,783	33,236	(748,226)	20,485	(677,717)
Loss for the year	–	–	–	(466,581)	–	(466,581)
Exchange realignment	–	–	–	–	29,424	29,424
Total comprehensive income for the year	–	–	–	(466,581)	29,424	(437,157)
Issue of shares from initial public offering ("IPO")	4	559,747	–	–	–	559,751
Share issue expenses	–	(34,955)	–	–	–	(34,955)
Conversion of convertible redeemable preferred shares upon IPO	19	2,910,990	–	–	–	2,911,009
Issue of shares from exercise of share options	–	8,461	(4,408)	–	–	4,053
Share-based payments	–	–	30,510	–	–	30,510
At 31 December 2021	28	3,461,026	59,338	(1,214,807)	49,909	2,355,494

* These reserve accounts comprise the reserves of RMB2,355,466,000 (2020 : RMB(677,722,000)) in the statements of financial position of the Company.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of the directors on 22 March 2022.