

东曜药业
TOT BIOPHARM

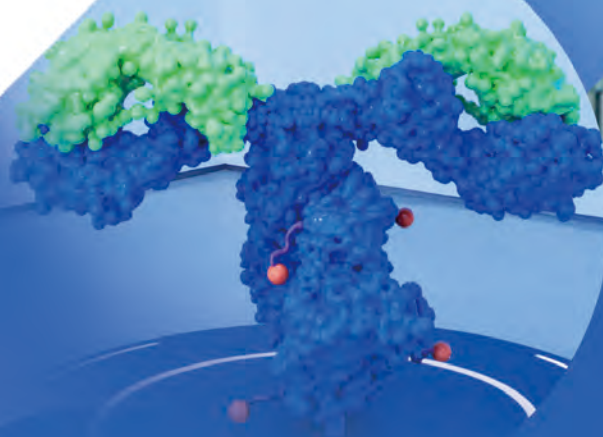
2023 Annual Report

東曜藥業股份有限公司

TOT BIOPHARM International Company Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 1875



**Strive for
Better Life**



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Strive for
Better Life

CORPORATE INFORMATION

EXECUTIVE DIRECTOR

Dr. Liu, Jun (*Chief Executive Officer*)

NON-EXECUTIVE DIRECTORS

Mr. Fu, Shan (*Chairperson of the Board*)

Ms. Yeh-Huang, Chun-Ying

(*Vice Chairperson of the Board; re-designated from an executive Director to a non-executive Director with effect from 1 January 2023*)

Mr. Qiu, Yu Min (*resigned with effect from 12 August 2023*)

Dr. Liu, Weidong (*appointed on 12 August 2023*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Hu, Lan

Mr. Chang, Hong-Jen

Dr. Wang, De Qian

AUDIT AND CONNECTED TRANSACTIONS REVIEW COMMITTEE

Ms. Hu, Lan (*Chairperson*)

Mr. Qiu, Yu Min (*resigned with effect from 12 August 2023*)

Dr. Liu, Weidong (*appointed as a member on 12 August 2023*)

Mr. Chang, Hong-Jen

REMUNERATION COMMITTEE

Mr. Qiu, Yu Min (*resigned as the chairperson with effect from 12 August 2023*)

Dr. Liu, Weidong (*appointed as the chairperson on 12 August 2023*)

Mr. Chang, Hong-Jen

Dr. Wang, De Qian

NOMINATION COMMITTEE

Mr. Fu, Shan (*Chairperson*)

Ms. Hu, Lan

Dr. Wang, De Qian

STRATEGY AND ESG COMMITTEE

Mr. Fu, Shan (*Chairperson*)

Dr. Liu, Jun

Ms. Yeh-Huang, Chun-Ying

Mr. Qiu, Yu Min (*resigned with effect from 12 August 2023*)

Dr. Liu, Weidong (*appointed as a member on 12 August 2023*)

Dr. Wang, De Qian

JOINT COMPANY SECRETARIES

Mr. Chen, Yifan

Mr. Lui, Wing Yat Christopher

(*Associate member of the Hong Kong Chartered Governance Institute and the Chartered Governance Institute in the United Kingdom*)

AUTHORIZED REPRESENTATIVES

Dr. Liu, Jun

Mr. Lui, Wing Yat Christopher

SHARE REGISTRAR

Tricor Investor Services Limited

17/F, Far East Finance Centre,

16 Harcourt Road,

Hong Kong

REGISTERED OFFICE

5/F, Manulife Place,

348 Kwun Tong Road,

Kowloon, Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

120 Changyang Street,

Suzhou Industrial Park,

Suzhou, PRC

COMPANY WEBSITE

www.totbiopharm.com.cn

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited

1875

PRINCIPAL BANKS

Shanghai Pudong Development Bank

Bank of China

Agricultural Bank of China

Industrial and Commercial Bank of China

China Merchants Bank

Bank of Jiangsu

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants and Registered Public Interest Entity Auditor

LEGAL ADVISER

Sullivan & Cromwell (Hong Kong) LLP

INVESTORS AND MEDIA RELATIONS CONSULTANT

Hong Kong ZHIXIN Financial News Agency Limited

CEO STATEMENT



Dear Shareholders,

Greetings, everyone! On behalf of the Board, I am pleased to present the annual results and business progress of the Company for the year ended 31 December 2023.

The year 2023 witnessed the accelerated growth of our operational results, as well as our proactive efforts against hardships. Embarking on a new journey in 2024, we are poised to forge ahead in high spirits to make new breakthroughs.

Looking back on 2023, our endeavors were rewarded amidst challenges and opportunities. Due to risks and challenges arising from global economic slowdown, the biopharmaceutical industry underwent a systemic integration and experienced formidable uncertainties. However, as a strategic emerging industry intertwined with national economy, public welfare and national security, the biopharmaceutical industry remained in a phase of major strategic opportunities. In 2023, the Company continued to strengthen its CDMO business capabilities, further enhanced its presence in the XDC sector (such as ADC and AXC), and established a scarce one-stop

ADC platform, aiming to meet the needs of the whole process of ADC drugs from development to commercial production, and ensure stable supply. Meanwhile, in line with its commitment to following high-standard quality management system in the industry, the Group has successfully passed 7 regulatory inspections conducted by the National Medical Products Administration of China (NMPA) and other global regulatory authorities, as well as inspections conducted by customers and third-party audit bodies (including the EU QP Audit). In particular, the Company has collaborated with its customers in a number of inspections by partnering overseas multinational pharmaceutical companies and audits by institutions, as well as in completing customer authorizations, which were highly recognized by its customers. With an unremitting commitment to quality, the Company continued to gain the interest and trust of more customers and partners. Since its comprehensive transformation in 2020, the Company has rapidly ascended to prominence as a renowned biological drug CDMO company in China within a mere three years. Especially in the ADC sector, the Company has emerged as a leading ADC CDMO company in China. On this basis, the Company further promoted the sales of launched products, and fostered a sustained, rapid growth in commercial sales through differentiated sales strategies. While steadily adhering to high-quality development, the Company achieved growth against the trend.

During the reporting period:

- The Group's revenue amounted to RMB780,629 thousand, representing a year-on-year increase of 77%.
- In particular, revenue from sales of products was RMB630,207 thousand, representing a year-on-year increase of 107%, which was mainly attributable to the significant increase in the sales of Pusintin® (Bevacizumab injection), our core product. Revenue from CDMO/CMO business amounted to RMB140,898 thousand, representing a year-on-year increase of 94%. In 2023, there was no one-time revenue from licenses granted, as compared to RMB54,151 thousand in 2022. Excluding the impact of such item, revenue would have increased by 101% year-on-year in 2023.

- The Group's cash-generating capability was continuously enhanced, and the net cash flow from operating activities continued to be positive and amounted to RMB56,431 thousand. Our profitability continued to improve, with adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of RMB40,041 thousand, representing a year-on-year increase of 274%.
- The net loss of the Group was RMB37,757 thousand, representing a decrease of RMB12,289 thousand, or 25%, from the net loss of RMB50,046 thousand in 2022.

In 2023, we continued to enhance the construction of technology platforms, prioritize differentiated competitiveness in ADC, and accelerate the revenue growth of CDMO business.

Currently, the Company has established a high-standard commercial production platform that integrates antibody and ADC drug substances and drug products. With significant emphasis on CDMO technology research and development, the Company continued to invest in cell line development technology platform, process optimization and innovation platform, production capacity supporting facilities for large-scale production and other areas, providing customers with one-stop CDMO services covering the whole process from DNA to IND, and to BLA and commercial production. In order to constantly expand the differentiated competitiveness in ADC, the Company entered into cooperation with GlycanLink (糖嶺生物) to jointly develop a site-specific conjugation technology platform – DisaLink™, and accelerate the development and commercialization of customers' innovative drug conjugates. As its differentiated advantages in ADC CDMO have been recognized by the market, the Company has entered into several long-term strategic cooperation with Lepu Biopharma (樂普生物), Escugen (詩健生物), BioRay (博銳生物), SmartNuclide (智核生物) and ChemExpress (皓元醫藥). Leveraging its outstanding CMC development capacity and success in commercialization projects, the Company has obtained a number of pre-BLA projects, securing the revenue from potential commercialization orders.

The growth rate of CDMO business was above the industry average, demonstrating a strong development momentum. During the year, 39 newly added projects were secured, representing a year-on-year increase of 44%, and the total number of projects reached 95. Among these newly added projects, there were 30 ADC-related projects, highlighting the Company's differentiated advantages in the ADC field. There were 65 projects in process, and both the revenue from and the number of ADC projects increased to 65% as a percentage of all projects. There were a total of 6 pre-BLA projects, including 4 newly added projects, which fully demonstrated our outstanding capabilities in late-stage CDMO commercialization projects and laid a solid foundation for the continued business growth of the Company.

In 2023, we continued to refine our core capabilities in CDMO commercialization, reaching a new height in commercial production.

In 2023, we further enhanced our production lines, significantly improving the flexibility and production capacity of the production lines. Currently, the Company has 4 complete commercial production lines of international leading brands, including 5 workshops for drug substances and 4 workshops for drug products, with the annual production capacity of 300,000L of drug substances and 20 million vials of drug products for antibodies, and the annual production capacity of 960kg of drug substances and over 5.3 million vials of drug products for ADC. Notably, the Company's second commercial production line for ADC drug products has been put into operation since June 2023. During the reporting period, the production line has arranged the production for over 10 projects, including 3 pre-BLA projects, and completed the filling and production for multiple batches. The Company had a leading ranking among biological drug CDMO industry players in China, and became a large-scale one-stop ADC CDMO provider with commercial production capacity in China. In a dedicated effort to bolster its CDMO technical service capabilities, the Company initiated the construction of the Global Research and Development Service Center in 2021, and announced its official inauguration on 19 October 2023. The Center, with a total construction area of 25,000 square meters, serves as

the global headquarters of the Company, housing both research and development facilities and administrative offices. It can further strengthen our CDMO business capabilities in technology research, process development and quality research, laying a more solid foundation for the expansion of our CDMO business. Relying on its top-notch talents, technology, concepts and management, the Center will help our customers accelerate their research and development of biological drugs.

In 2023, due to the acceleration of product commercialization, the Company recorded a sales revenue of RMB630 million, contributing to its stable cash flow and laying a solid foundation for its in-depth CDMO strategic transformation.

Up to now, Pustintin® (Bevacizumab injection), a core sales product of the Company, has exhibited remarkable sales performance driven by our differentiated sales strategies, which improved the drug accessibility and affordability for cancer patients in China. Meanwhile, the Company continued to accelerate overseas commercialization. Currently, we have successfully initiated the registration application in 23 overseas countries, and the registration application documents have been accepted by 13 countries. We expect to obtain the first approval from an overseas country in 2024, which is expected to provide new treatment options to a wider range of patients worldwide. In addition, TAB014, a product licensed to Zhaoke Ophthalmology (兆科眼科) by the Company in 2022, completed ahead of schedule the enrolment of patients for the Phase III clinical trial in September 2023, and the Company will continue to be responsible for the clinical product supply and commercialized production of TAB014, which is expected to inject fresh growth impetus into our CDMO revenue.

In 2023, we continued to improve team building to empower the long-term development of the Company.

In line with the rapid development of our CDMO business, we continued to promote talent development at a strategic level to empower the long-term development of the Company. Through introducing exceptional talents at home and abroad and building an echelon of highend talents, we continued to improve the management structure and gradually optimized the organizational structure of the Company. During the reporting period, the number of CDMO team members rose to 464, representing an increase of 34% as compared with the end of 2022, and accounting for 84% of the total number of staff of the Group. In particular, the core technical team had an average of over 12 years of experience in the biomedical field, and the senior management team had an average of over 15 years of work experience in world-renowned multinational companies. The Company introduced and retained professional talents through planned trainings and promotion, and the retention rate of core CDMO team members reached 95%.

PROSPECTS

Looking back on 2023, we have achieved fruitful results. Looking ahead, we will seek progress while maintaining stability, and dedicate our efforts in solidifying our leading position in CDMO, especially in ADC CDMO. We will continuously strengthen the construction of our quality system, accelerate the global expansion of our business. Leveraging the service capabilities of our innovative technology platform, we will extend the value chain, with a view to injecting new momentum for the long-term growth of the Company and forging a new development paradigm. On behalf of the Board of the Company and all employees of the Group, I would like to express my heartfelt gratitude to all shareholders, all walks of life and our partners for your long-term attention to and support for the Group!

Dr. Liu, Jun

Chief Executive Officer and Executive Director

15 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS OF CERTAIN FINANCIAL ITEMS

FINANCIAL SUMMARY

HKFRSs Results

The following table sets forth the net loss and total comprehensive loss for the periods indicated:

Item	For the year ended 31 December		
	2023 RMB'000	2022 RMB'000	Increase/ Decrease
Revenue	780,629	442,178	77%
Cost of revenue	(206,643)	(71,563)	189%
Research and development expenses	(103,890)	(151,168)	-31%
Selling expenses	(441,019)	(203,954)	116%
General and administrative expenses	(68,310)	(62,587)	9%
Net impairment losses on financial and contract assets	(11,481)	(597)	1,823%
Other income and losses – net	17,654	8,615	105%
Operating loss	(33,060)	(39,076)	-15%
Finance income	2,974	2,265	31%
Finance costs	(5,175)	(6,602)	-22%
Finance costs – net	(2,201)	(4,337)	-49%
Share of net loss of the joint venture accounted for using the equity method	(2,495)	(6,633)	-62%
Loss before income tax	(37,756)	(50,046)	-25%
Income tax expense	(1)		N/A
Loss for the year	(37,757)	(50,046)	-25%
Other comprehensive income for the year, net of tax	1,737	6,314	-72%
Total comprehensive loss for the year	(36,020)	(43,732)	-18%

Non-HKFRSs Measures and their Adjustment

To supplement the Group's consolidated financial statements which are presented in accordance with the HKFRSs, the Group uses EBITDA, adjusted net loss and adjusted EBITDA for the year and other adjusted figures as additional ways to measure our financial performance. This is not a presentation required by the HKFRSs or in accordance with the HKFRSs. The Group believes that these adjusted measures provide useful information to the shareholders and potential investors in understanding and evaluating the Group's consolidated operating results in the same manner as the Group's management does.

The adjusted net loss for the year refers to the net loss for the year, excluding the effect of non-cash and one-off items including share-based compensation expenses, one-off asset impairment and tax filing difference for prior year. The adjusted net loss for the year is not defined in the HKFRSs.

The adjusted EBITDA for the year refers to the EBITDA for the year (which is net loss for the year excluding income tax, interest expenses and depreciation and amortization expenses for the year), excluding the effect of one-off asset impairment and share-based compensation expenses, which is a non-cash and one-off item. The adjusted EBITDA for the year is not defined in the HKFRSs.

The use of these non-HKFRSs measures have limitations as an analytical tool, and should not be considered in isolation from, or as a substitute for analysis of, the Group's operating results or financial condition as reported under the HKFRSs. The adjusted figures presented by the Group may not be comparable to benchmarks of a similar measures presented by other companies. However, the Group believes that these non-HKFRSs measures is able to eliminate the potential impact of items that the management does not consider to be indicative of the Group's operating performance and can reflect the Group's normal operating results, thus facilitating the comparison of operating performance from period to period and from company to company to an appropriate extent.

The following table sets forth the reconciliation from net loss to EBITDA for the periods indicated:

Item	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Net loss	(37,757)	(50,046)
Add:		
Interest expenses	5,175	6,602
Depreciation and amortization	43,028	38,039
Income tax expense	1	
EBITDA	10,447	(5,405)

The following table sets forth the reconciliation between net loss to adjusted net loss and EBITDA to adjusted EBITDA for the periods indicated:

Item	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Net loss	(37,757)	(50,046)
Add:		
Share-based compensation expenses	10,643	16,111
One-off asset impairment due to strategic adjustments	18,951	
Income tax expense	1	
Adjusted net loss	(8,162)	(33,935)
EBITDA	10,447	(5,405)
Add:		
Share-based compensation expenses	10,643	16,111
One-off asset impairment due to strategic adjustments	18,951	
Adjusted EBITDA	40,041	10,706

The adjusted net loss for 2023 was RMB8,162 thousand, representing a decrease of RMB25,773 thousand as compared to the adjusted net loss for 2022 of RMB33,935 thousand. The adjusted EBITDA for 2023 was RMB40,041 thousand, while the adjusted EBITDA for 2022 was RMB10,706 thousand. Such changes were primarily attributable to the improvement of the Group's revenue-generating capacity and profitability associated with the continued strong progress of commercialization of self-developed products and the rapid expansion of CDMO business sector.

Overview

In 2023, the Group recorded an operating revenue of RMB780,629 thousand, representing an increase of RMB338,451 thousand, or 77%, from RMB442,178 thousand in 2022. In 2023, the net loss of the Group was RMB37,757 thousand, representing a decrease of RMB12,289 thousand, or 25%, from the net loss of RMB50,046 thousand in 2022. In 2023, the Group's research and development expenses were RMB103,890 thousand, as compared to RMB151,168 thousand in 2022. In 2023, the Group's general and administrative expenses were RMB68,310 thousand, as compared to RMB62,587 thousand in 2022. In 2023, the Group's selling expenses were RMB441,019 thousand, as compared to RMB203,954 thousand in 2022.

Operating Revenue and Costs

The Group's diversified revenue is mainly derived from sales revenue, revenue for providing CDMO/CMO services, etc.

In 2023, the Group's revenue from sales of products was RMB630,207 thousand, representing an increase of RMB325,846 thousand from RMB304,361 thousand in 2022, which was mainly due to the significant increase in the sales volume of our core product, Pusintin®, while the corresponding costs also increased accordingly.

The Group's revenue from CDMO/CMO business in 2023 was RMB140,898 thousand, representing an increase of RMB68,360 thousand from RMB72,538 thousand in 2022, primarily attributable to the large-scale expansion of CDMO/CMO business segment, while the costs for raw materials, labor and production, etc. also increased accordingly.

Research and Development Expenses

During the reporting period, the Group's research and development expenses primarily consist of expenses related to clinical trial research for pipeline product candidates, and expenses related to the enhancement of the Group's CDMO technology platform.

The Group's research and development expenses in 2023 were RMB103,890 thousand, representing a decrease of RMB47,278 thousand from RMB151,168 thousand in 2022, which was mainly attributable to the streamlining of product pipelines and the further allocation of research and development resources to ADC CDMO process development and technological innovation.



The following table sets forth a breakdown of the Group's research and development expenses by nature for the periods indicated:

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Clinical trials (exclude employee benefit expenses)	11,299	38,056
Employee benefit expenses	42,474	63,251
R&D materials and consumables	5,570	5,620
Depreciation and amortization	21,977	22,175
Utilities	1,204	5,012
Other third-party research contracting costs	2,218	3,892
Others	19,148	13,162
Total	103,890	151,168

Selling Expenses

The Group's selling expenses primarily consist of expenses for marketing and promotion activities, salaries and benefits for business development and marketing staff, conference fees, and travelling expenses, etc.

The Group's selling expenses in 2023 were RMB441,019 thousand, representing an increase of RMB237,065 thousand from RMB203,954 thousand in 2022, which was mainly attributable to the increase in sales of self-developed products and the increase in marketing and promotion expenses resulting therefrom.

General and Administrative Expenses

The Group's general and administrative expenses primarily consist of salaries and benefits for management and administrative staff, legal advisory fees, and expenses for professional services related to audit and tax, etc.

The Group's general and administrative expenses in 2023 were RMB68,310 thousand, representing an increase of RMB5,723 thousand from RMB62,587 thousand in 2022, which was mainly attributable to the increase in taxation resulting from the increase in sales of self-developed products, and the increase in provision for share-based compensation expenses.

Net Impairment Losses on Financial and Contract Assets

The Group's net impairment losses on financial and contract assets mainly include bad debt provision and reversal for trade and other receivables, other current and non-current assets, etc.

The Group's net impairment losses on financial and contract assets in 2023 were RMB11,481 thousand, representing an increase of RMB10,884 thousand from RMB597 thousand in 2022, which was mainly attributable to the impairment provision for other receivables and other assets in prior years in response to the strategic transformation.

Other Income and Losses – Net

The Group's net other income and losses in 2023 was RMB17,654 thousand, representing an increase of RMB9,039 thousand from RMB8,615 thousand in 2022, which was mainly attributable to the increase in government grants and net foreign exchange gains.

Finance Income

The Group's finance income is primarily interest income on bank deposits.

The finance income in 2023 was RMB2,974 thousand, representing an increase of RMB709 thousand from RMB2,265 thousand in 2022, which was mainly attributable to the optimization of fund allocation.

Finance Costs

The Group's finance costs are primarily interest expenses on bank borrowings for satisfying operational needs and capital expenditures for capacity enhancement, etc.

The Group's finance costs in 2023 were RMB5,175 thousand, representing a decrease of RMB1,427 thousand from RMB6,602 thousand in 2022, mainly due to the repayment of part of the working capital loans.

Income Tax Expense

The Group's income tax expense in 2023 was RMB1 thousand, which was recognized for adjustments made to the current income tax in the last year (2022: nil).

Loss for the Year

In view of the abovementioned factors, the Group recorded a net loss of RMB37,757 thousand in 2023, representing a decrease of RMB12,289 thousand from RMB50,046 thousand in 2022.

Net Assets

The Group's net assets as of 31 December 2023 were RMB686,686 thousand, representing a decrease of RMB28,753 thousand from RMB715,439 thousand as of the end of 2022, which was mainly attributable to the net loss during the current period.

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Total current assets	693,175	676,797
Total non-current assets	732,926	585,234
Total assets	1,426,101	1,262,031
Total current liabilities	382,486	275,347
Total non-current liabilities	356,929	271,245
Total liabilities	739,415	546,592
Net assets	686,686	715,439

Cash Movement and Source of Funds

As at 31 December 2023, the Group's cash and cash equivalents were RMB351,600 thousand, representing a decrease of RMB66,169 thousand from RMB417,769 thousand as at the end of 2022. Such change was mainly attributable to the following reasons:

In 2023, the Group's net cash inflows for operating activities were RMB56,431 thousand, representing a decrease of RMB3,498 thousand from RMB59,929 thousand in 2022, which was attributable to the changes in the above-mentioned operating expenses in the current year, coupled with the impact of revenue from licenses granted in 2022. The Group's net cash outflows for investing activities for the current year were RMB164,105 thousand, representing a decrease of RMB118,659 thousand from RMB282,764 thousand as at the end of 2022, which was mainly attributable to the nearing completion of projects such as the construction of the Global Research and Development Service Center. The Group's net cash inflows for financing activities were RMB38,225 thousand, representing a decrease of RMB443,015 thousand from RMB481,240 thousand as at the end of 2022, which was mainly attributable to the receipt of funds from financing in 2022 and the optimization of the capital structure on the basis of the continued positive net cash inflows for operating activities in 2023.

Indebtedness and Key Liquidity Ratio

As at 31 December 2023, the Group had outstanding bank borrowings that amounted to RMB344,285 thousand (31 December 2022: RMB287,633 thousand) and had unutilised bank facilities of RMB265,715 thousand (31 December 2022: RMB237,367 thousand). For further details, please refer to note 28 to the consolidated financial statements.

The following table sets forth the key liquidity ratios for the dates indicated:

	For the year ended 31 December	
	2023	2022
Current ratio ⁽¹⁾	1.8	2.5
Quick ratio ⁽²⁾	1.5	2.1
Debt to asset ratio ⁽³⁾	0.5	0.4

Notes:

- (1) Current ratio is calculated by dividing current assets by current liabilities as at the same date.
- (2) Quick ratio is calculated by dividing current assets less inventories and by current liabilities as at the same date.
- (3) Debt to asset ratio is calculated by dividing total liabilities by total assets as at the same date.

The Group's current ratio and quick ratio decreased from 2022 to 2023 and its debt to asset ratio increased from 0.4 as at 31 December 2022 to 0.5 as at 31 December 2023, mainly attributable to the increase of long-term bank borrowings drawn for promoting the construction of the Global Research and Development Service Center.

Material Investment

On 9 November 2021, the Group commenced the construction of the Global Research and Development Service Center. The proposed total investment for the project is approximately RMB180 million. On 31 December 2021, TOT BIOPHARM Co., Ltd. (a wholly-owned subsidiary of the Company) entered into a construction agreement with Shanghai Baoye Group Corp., Ltd. (上海寶冶集團有限公司), under which the total contract sum payable to Shanghai Baoye Group Corp., Ltd. is RMB83,500 thousand. Further details are set out in the announcement of the Company dated 31 December 2021. During the year ended 31 December 2023, the Group incurred expenditure of RMB70,949 thousand in connection with the construction agreement entered into with Shanghai Baoye Group Corp., Ltd., and expenditure of RMB140,932 thousand in total in connection with the construction of the Global Research and Development Service Center.

In 2021, the Group commenced the project of upgrading its ADC commercial production workshops and the project of renovating and upgrading its pilot production workshops for the purpose of increasing its production capacity as well as enhancing its production efficiency. A total of RMB246,743 thousand was incurred by the Group during the year ended 31 December 2023 in connection with such projects.

Save as disclosed above, the Group did not make any material investment during the year ended 31 December 2023.

Material Acquisitions and Disposals

During the year ended 31 December 2023, the Group did not have any material acquisitions and disposals of subsidiaries, consolidated affiliated entities or associates.

Pledge of Assets

As at 31 December 2023, the Group had no pledge of assets.

Contingent Liabilities

As at 31 December 2023, the Group had no significant contingent liabilities.

Foreign Exchange Risk

Certain bank balances and cash, trade receivables and other receivables, contract assets and other payables are denominated in foreign currencies of respective group entities which are exposed to foreign exchange risk. Foreign exchange risk also arises from future commercial transactions and recognized assets and liabilities denominated in a currency other than the functional currency of the relevant group entity. The Group has entities operating in USD, NTD and RMB, and the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future when necessary.

Employees and Remuneration

As at 31 December 2023, the Group had a total of 551 employees. The following table sets forth the total number of employees by function as of 31 December 2023:

Function	Number of employees	% in total
Research and development	159	28.86%
Sales and marketing	26	4.71%
General and administration	58	10.53%
Manufacturing	308	55.90%
Total	551	100%

In 2023, the Group incurred employee benefit expenses of RMB174,463 thousand, as compared to RMB137,960 thousand in 2022. The employee benefit expenses of the Group include salaries, wages, bonuses, contributions to employee provident fund and social security funds, payments for other benefits and share-based compensation expenses, etc. In accordance with applicable PRC laws, the Group has made contributions to social security insurance funds, including basic pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, and housing provident funds for its employees. In accordance with applicable Taiwan laws, the Group has made contributions to social security insurance funds.

For the year ended 31 December 2023, the remuneration of the senior management of the Company other than Directors (as named in the section headed “Biographies of directors and senior management” in the Company’s 2022 annual report and/or this annual report, to the extent such personnel were under employment with the Group at any time during the year ended 31 December 2023) included salaries, wages, bonuses, and share-based compensation expenses, and fell within the following bands:

Remuneration band	Number of senior management members
RMB0 to RMB500,000	1
RMB500,001 to RMB1,000,000	0
RMB1,000,001 to RMB1,500,000	2
RMB1,500,001 to RMB2,000,000	1
RMB2,000,001 to RMB2,500,000	1
RMB2,500,001 to RMB3,000,000	2

MANAGEMENT DISCUSSION AND ANALYSIS OF CERTAIN ASPECTS OF OUR BUSINESS

I. BUSINESS REVIEW

In 2023, the Company continued to implement its strategic transformation goals and make efforts in business and technology. While steadily adhering to high-quality development, the Company achieved growth against the trend. In terms of operations and management, the Company continued to capitalize on its diversified business structure to cope with industry and market challenges. Since the strategic transformation towards CDMO in 2020, the Company has remained steadfast in its mission of “to be an industry-leading and the best customer-trusted partner in biopharmaceuticals” and its vision of “empowering pharmaceutical innovation to improve the quality of life and safeguard human health”, with focus on biological drug CDMO business, especially the differentiated layout of ADC CDMO. Amidst the increasing global incidence of cancer, there is an urgent market demand for novel therapies, including diverse technological approaches such as ADCs, bispecific, and multispecific antibodies. Given the high standards required in the pharmaceutical research phase of CMC (chemical manufacturing and control) and the associated regulatory risks, an increasing number of pharmaceutical companies are opting for the services of more specialized CDMO companies, which is expected to provide more promising growth opportunities for the biopharmaceutical outsourcing industry. With its comprehensive and high quality one-stop CDMO services and track record of delivering nearly one hundred projects to high standards, the Group has been highly recognized by customers, and has made great progress in market expansion, which will contribute a strong growth driver to revenue from the CDMO business in the future. In terms of sales of self-developed products, the Company’s core product, Pusintin (Bevacizumab injection)[®], has seen considerable sales growth despite the increasingly stringent national policies, providing a solid basis for the Company’s sustainable development. In terms of business expansion in overseas markets, Pusintin is expected to be approved and commercially launched in the first country by 2024, injecting new momentum for the long-term growth of the Company.

As of 31 December 2023:

- the Group’s revenue amounted to RMB780,629 thousand, representing a year-on-year increase of 77%. In particular, revenue from sales of products was RMB630,207 thousand, representing a year-on-year increase of 107%, which was mainly attributable to the significant increase in the sales of Pusintin[®] (Bevacizumab injection), our core product. Revenue from CDMO/CMO business amounted to RMB140,898 thousand, representing a year-on-year increase of 94%. In 2023, there was no one-time revenue from licenses granted, as compared to RMB54,151 thousand in 2022. Excluding the impact of such item, revenue would have increased by 101% year-on-year in 2023. The Group’s cash-generating capability was continuously enhanced, and the net cash from operating activities continued to be positive and amounted to RMB56,431 thousand. Our profitability continued to improve, with adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of RMB40,041 thousand.
- The net loss of the Group was RMB37,757 thousand, representing a decrease of RMB12,289 thousand, or 25%, from the net loss of RMB50,046 thousand in 2022.

The growth rate of CDMO business was above the industry average, demonstrating a strong development momentum. During the year, 39 newly added projects were secured, representing a year-on-year increase of 44%, and the total number of projects reached 95. Among these newly added projects, there were 30 ADC projects, 6 antibody and 3 testing service projects. As the differentiated advantages in ADC CDMO have been recognized by the market, there were 65 projects in process, and both the revenue from and the number of ADC projects increased to 65% as a percentage of all projects. The Company has entered into comprehensive cooperation in the fields of ADC drugs, radionuclide-drug conjugates (RDC) and other broader bioconjugates drugs with strategic partners such as Lepu Biopharma (樂普生物), Escugen (詩健生物), BioRay (博銳生物), SmartNuclide (智核生物) and ChemExpress (皓元醫藥). In addition, we have successfully secured 4 pre-BLA project orders, and the total number of pre-BLA project orders reached 6, which fully demonstrated the Company’s outstanding capabilities in late-stage CDMO commercialization projects and laid a solid foundation for the continued business growth of the Company.

II. ANTIBODY-DRUG CONJUGATES (ADC) ARE ENJOYING A GOLDEN PERIOD OF RAPID DEVELOPMENT

1. Market Size of Biological Drugs

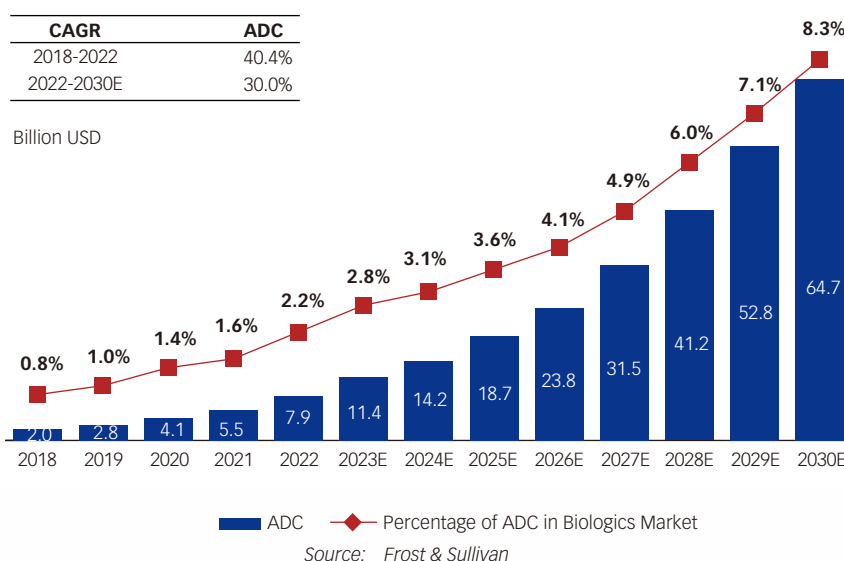
Driven by the rapid development of biotechnology and the increased investment in research and development, China's biomedical industry is entering a period of rapid development, and the market size is steadily expanding. According to the statistics and estimates of Frost & Sullivan, the market size of biological drugs in China will increase from RMB410.0 billion in 2021 to RMB710.2 billion in 2025, representing a CAGR of 14.7%. In the future, with the improvement of residents' affordability, the growth of patient groups, and the expansion of medical insurance coverage, it is expected that the market size of biological drugs in China will be further expanded to RMB1 trillion by 2030. ADC drug, with high specificity inherent to antibody and the high anti-tumor activity inherent to cytotoxin, is of more controllable safety, and is currently one of the hot research topics in the field of tumor treatment. In 2023, over 10 ADC projects successfully launched in overseas markets and the transaction amount continued to reach record high, opening up new grounds in China's ADC drug market.

2. Market Opportunities for ADC/XDC

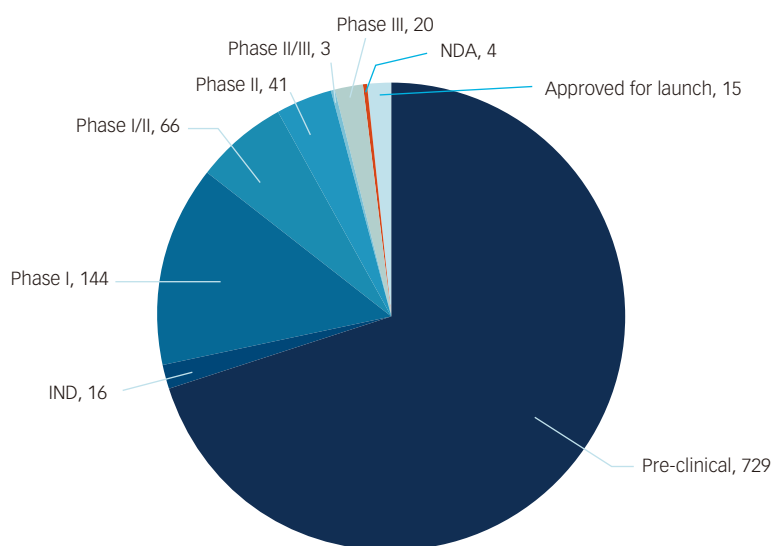
– Rapid growth of the ADC drug market

ADC drugs are a new type of treatment for malignant tumors, following chemotherapy, targeted therapy and immunotherapy. With high-precision targeting and a wide therapeutic window, ADC drugs are forging a new paradigm in broad-spectrum anti-tumor therapy, and the great success of DS-8201 in particular has reshaped the landscape of HER2-targeted therapies. According to the statistics of Frost & Sullivan, the global market size of ADC is expected to increase from USD7.9 billion in 2022 to USD64.7 billion in 2030 at a high CAGR of 30.0%.

Global Market Size of ADC Between 2018 and 2030E



As the market size of ADC drugs began to surge, the clinical applications for ADC drugs also expanded rapidly. According to the statistics (see below chart) of PHARMCUBE (醫藥魔方), there are over 1,000 active traditional ADC drugs in the world, of which only 15 products have been approved for launch. There are still nearly 300 products in various stages of clinical research, the majority of which are still in the pre-clinical stage, which offers great growth potential for the ADC CDMO business market. With the rapid launch and increasing sales of ADC products, the market size has continued to grow rapidly, making the concept of X-Drug Conjugates (XDC) the trend of the future. The development of XDC, the new targeting method, where X can be small molecules, peptides, nucleic acids, ligands, single-chain variable fragments, or nanoparticles, etc., demonstrates the huge potential of the XDC drug market. Notably, Novartis has launched two RDC drugs.



Source: PHARMCUBE (醫藥魔方)

– *ADC CDMO facilitated the acceleration of ADC drug development*

Due to the complexity and high toxicity of ADC drugs, there are extremely high requirements for process development, stability, batch-to-batch consistency and CMC compliance. As a result, ADC drugs have relatively high barriers to entry compared to small molecule and antibody drugs in terms of commercial production technology, facility investment and maintenance, and other aspects. In particular, with the increasing complexity of late-stage clinical and commercialization, the requirements for project development experience and compliance become higher. Cooperation with professional CDMOs can significantly reduce drug development costs, shorten development cycles and reduce operational risks. The outsourcing rate can be as high as approximately 70%, which is much higher than the 34% outsourcing rate for other biologics.

Statistics show that the global market size of ADC CDMO reached USD1.5 billion in 2022, representing a CAGR of 34.5% from 2018 to 2022, which outpaced the 21.8% CAGR of the overall biopharmaceutical outsourcing services market over the same period. It is expected that the market size of ADC CDMO will grow significantly to USD11.0 billion by 2030, representing a CAGR of 28.4% from 2022 to 2030. At the same time, validated research and development and industrialization platforms that integrate antibodies, ADC drug substances and ADC drug products are very scarce in China. All these factors offered good opportunities and prospects for the development of the Company's ADC CDMO business.

III. DEVELOPMENT AND COMPETITIVE ADVANTAGES OF CDMO BUSINESS OF TOT BIOPHARM

1. Highlights of CDMO Performance

In 2023, TOT BIOPHARM continued to expand its portfolio of early-stage pipeline projects and enhance its customer stickiness by focusing on the biological drug CDMO business. With an unremitting commitment to quality, the Company continued to gain the interest and trust of more customers and partners. During the year, the Company achieved outstanding performance in its CDMO business. As of 31 December 2023, the revenue from CDMO/CMO was RMB140,898 thousand, representing a year-on-year increase of 94%. There were 65 projects in process, and both the revenue from and the number of ADC projects increased to 65% as a percentage of all projects, highlighting the differentiated advantages of the Company in the field of ADC.

Leveraging its outstanding commercial production capacity and project experience, the Company quickly undertook late-stage clinical projects and accelerated cash flow conversion. During the year, 39 newly added projects were secured, of which 30 were ADC projects. 34 pre-IND projects were newly added, which expanded the portfolio of pipeline projects and enhanced the front-end promotion. There were a total of 6 pre-BLA projects, and 4 pre-BLA projects were newly added, including 3 ADC projects, which are poised to secure sustainable profits in the future.

2. Facilitating the Broader Development of Bioconjugates Drugs through a Number of Long-term Strategic Cooperation on ADC CDMO

In 2023, TOT BIOPHARM entered into a number of in-depth strategic cooperation with its partners:

- TOT BIOPHARM established long-term ADC project cooperation with Lepu Biopharma (樂普生物), pursuant to which we will provide comprehensive services from research and development to clinical and subsequent commercialization for its ADC drugs;
- TOT BIOPHARM entered into close cooperation with Escugen (詩健生物), pursuant to which we will fully assist Escugen in the research and development and production of ADC drugs from late-stage clinical to commercialization, and utilizing our rich practical experience in the whole value chain of drug development to safeguard the success of Escugen;
- TOT BIOPHARM entered into comprehensive strategic cooperation in the field of CDMO with BioRay (博銳生物), pursuant to which we will provide BioRay with one-stop CDMO services for various ADC research and development projects, as well as whole process services for drug research and development, and will support BioRay on ADC drugs from research and development to IND, and clinical approval and commercial production in the future;
- TOT BIOPHARM entered into a strategic cooperation agreement with SmartNuclide (智核生物), pursuant to which the two parties will promote the development of radionuclide-drug conjugates (RDC) based on conjugation technology. This cooperation demonstrated the strong growth potential of TOT BIOPHARM in the emerging field of drug conjugates;
- TOT BIOPHARM entered into strategic cooperation with ChemExpress (皓元醫藥), pursuant to which the two parties will work closely relying on their respective advantages to deepen the establishment of a one-stop CDMO quality service platform covering the whole process from ADC drug research and development to industrialization.

3. The Company's Differentiated Competitiveness in CDMO

– 3.1 “One-base, end-to-end” ADC industrialization platform

TOT BIOPHARM, with the establishment of a “one-base, end-to-end” commercial production line that integrates antibody and ADC drug substances and drug products, has become one of the state-of-the-art CDMO service companies that can offer one-stop services from development to commercialization of ADC. It can meet the needs of the whole process of biological drugs from development to commercial production, avoiding the compliance uncertainties associated with domestic segmented production. The Company has a large-scale ADC commercial production workshop in China equipped with industry-leading production line for drug products, which were put into operation in June. TOT BIOPHARM's headquarters and integrated commercial production workshops are located in Suzhou Industrial Park. With the support of the Suzhou government and provincial and municipal regulatory authorities, geographical advantages, established supply chain, stable customer base and excellent talent pool, the Company can meet the needs of the whole process of ADC drugs from early development to commercial production, and ensure stable supply.

– 3.2 Technology platform with continuous iteration

TOT BIOPHARM continued to build the most competitive ADC CDMO technology platform. In July 2023, the Company entered into in-depth strategic cooperation with GlycanLink (糖嶺生物) to jointly develop an ADC site-specific conjugation technology platform – DisacLink™. The parties agreed to cooperate on GlycanLink's licensing to TOT BIOPHARM in respect of the use of DisacLink™ technology, the joint development of DisacLink™ technology by both parties, and the optimization, process development and commercial amplification of DisacLink™ technology, and to offer this technology as one of the CDMO services of TOT BIOPHARM to provide customers with high-quality development and manufacturing solutions for ADC drugs. In addition, the parties will collaborate on the marketing and commercialization of this technology to expand its global influence and competitiveness. The DisacLink™ technology, one of the site-specific conjugation technologies for third-generation ADC drugs, is characterized by high homogeneity, concise process, short reaction time, mild reaction conditions, and low overall process cost. It has shown good efficacy and safety in pre-clinical studies of the products. This cooperation will accelerate the development and commercialization of customers' innovative drug conjugates, further unleash the Company's innovation ability, and effectively promote the Company's development.

– *3.3 A validated high-standard quality management system that meets international standards*

In line with its commitment to following high-standard quality management system in the industry, the Company has established a quality management system that conforms to commercial production, covering the whole process from research and development to commercialization. At present, it has supported the commercial production of two launched products, and the quality system is continuously regulated by regulations and meets relevant standards. Meanwhile, in line with its commitment to following high-standard quality management system in the industry, the Group has successfully passed 7 regulatory inspections conducted by the National Medical Products Administration of China (NMPA) and other global regulatory authorities, as well as inspections conducted by customers and third-party audit bodies (including the EU QP Audit). In particular, the Company has collaborated with its customers in a number of inspections by partnering overseas multinational pharmaceutical companies and audits by institutions, as well as in completing customer authorizations, which were highly recognized by its customers. TOT BIOPHARM is committed to continuously improving and upgrading the international quality management system in order to provide customers with comprehensive and high-quality services and to become the industry-leading and most trusted partner in biomedicine.

– *3.4 Flexible and diverse production capacity*

TOT BIOPHARM has built and put into operation a large-scale commercial production line in China that integrates ADC naked antibodies as well as ADC drug substances and drug products. The Company has completed the construction of the second and third commercial production lines for ADC drug substances, with a production capacity of 5kg/batch for each line. The second commercial production line for antibodies has been completed, significantly increasing the production capacity and flexibility of production lines. Currently, the Company has 4 complete commercial production lines of international leading brands, including 5 workshops for drug substances and 4 workshops for drug products, with the annual production capacity of 300,000L of drug substances and 20 million vials of drug products for antibodies, and the annual production capacity of 960kg of drug substances and over 5.3 million vials of drug products for ADC. Notably, the Company's second commercial production line for ADC drug products has been put into operation since June 2023. During the reporting period, the production for more than 10 projects, including 3 pre-BLA projects, has been carried out in the production line, which has completed several batches of filling and production. The Company has a leading ranking among biological drug CDMO industry players in China, and is also a leading one-stop ADC CDMO provider in China in terms of production capacity.

– *3.5 Continuously expanded CDMO team*

In order to empower its long-term development, TOT BIOPHARM continued to introduce key talents and expanded team echelon construction in line with business development. The Company has a mature and stable core CDMO team, consisting of talents with extensive industry experience in fields such as biopharmaceutical process development, commercial production, quality, and regulatory filing. The senior management of the Company has an average of over 15 years of extensive management experience in well-known multinational companies. In line with the rapid development of the Company's CDMO business, as of 31 December 2023, the number of CDMO team members were expanded to 464, representing a year-on-year increase of 34%, and accounting for 84% of the total number of staff of the Group. Among them, the core technical team had an average of over 12 years of experience in the biomedical field, which safeguards the success of its projects. The Company attracted and retained professional talents through planned trainings and promotion, and the retention rate of core CDMO team members reached 95%.

– *3.6 Corporate reputation*




Leveraging its advantages in research and development of new drugs, TOT BIOPHARM is equipped with the experience in the whole project process from drug research and development to commercial production and launch, and has successfully expanded the CDMO business, gaining trust and recognition from industry partners. We can complete project delivery efficiently with high quality based on in-depth understanding of customer needs and practical solutions. TOT BIOPHARM has completed a number of late-stage pre-BLA projects, which fully demonstrated its strong research and development and production capacity for late-stage clinical and commercialization projects, and laid a solid foundation for the medium- and long-term business development of the Company.

IV. LAUNCHED PRODUCTS AND R&D PIPELINE

1. Overall Marketing Strategy of Products

In 2023, under the new strategic direction of development, the Group's research and development expenses of new drugs continued to decrease by streamlining pipelines. TOT BIOPHARM actively promoted the sales of launched products, effectively improving the cash flow of the Company.

In March 2022, we entered into an agreement with Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited (兆科(廣州)眼科藥物有限公司) ("Zhaoke Guangzhou"), a wholly-owned subsidiary of Zhaoke Ophthalmology Limited (兆科眼科有限公司), in respect of the commercial licensing of TAB014 (which is used for the treatment of wet (neovascular) age-related macular degeneration (wAMD)), pursuant to which Zhaoke Guangzhou will act as the marketing authorization holder (MAH) of TAB014 in China (including Hong Kong and Macau regions) and be responsible for the Phase III clinical trial. According to an announcement published by Zhaoke Ophthalmology in October 2023, the enrolment of patients for the Phase III clinical trial of TAB014 was completed ahead of schedule on 16 September 2023, and TOT BIOPHARM will continue to be responsible for the commercialized production of TAB014 in the future.

Type	Drug Candidate	Indication(s)	Preclinical	Clinical Phase I	Clinical Phase II	Clinical Phase III	NDA	Launched
Antibody drug conjugate	TAE020 (new target)	Acute myeloid leukemia						
Monoclonal antibody	TAB014 (anti-VEGF)	Wet age-related macular degeneration (wAMD)						
	TAC020 (new target)	Various solid tumors						
Drug Name		Indication(s)	Product Specification		Launched			
Pusintin® (Bevacizumab Injection)		Advanced, metastatic or recurrent non-squamous non-small cell lung cancer (nsNSCLC); metastatic colorectal cancer (mCRC); recurrent glioblastoma multiforme (GBM); epithelial ovarian cancer (OC); fallopian tube cancer or primary peritoneal cancer; cervical cancer (CC); hepatocellular carcinoma (HCC)	100mg(4ml)/bottle		Approved for launch by NMPA on 30 November 2021			
Tazian® (Temozolomide Capsule)		Newly diagnosed glioblastoma multiforme, initially combined with radiotherapy, and then as maintenance therapy; glioblastoma multiforme or anaplastic astrocytoma that recurs or progresses after conventional treatment.	20mg X 5 capsules/bottle; 100mg X 5 capsules/bottle		Approved for launch by NMPA on 31 May 2021			
Megaxia® (Megestrol Acetate Oral Suspension)		Anorexia associated with acquired immunodeficiency syndrome ("AIDS") as well as significant weight loss of AIDS and cancer patients caused by cachexia	150mL/bottle		Approved for launch by NMPA on 13 May 2021 <small>(This product is imported from Taiwan; the Company owns the exclusive agency rights of this product in mainland China, Hong Kong and Macau)</small>			

Cautionary statement required by Rule 18A.05 of the Listing Rules: The Company cannot guarantee that it will be able to successfully develop and ultimately market its drug candidates. Shareholders and potential investors of the Company are advised to exercise due care when dealing in the securities of the Company.

Marketing Strategy of Launched Products

– *Pusintin® (Bevacizumab injection)*

- Indications: Advanced, metastatic or recurrent non-squamous non-small cell lung cancer; metastatic colorectal cancer; recurrent glioblastoma multiforme; epithelial ovarian cancer, fallopian tube cancer or primary peritoneal cancer; cervical cancer; and hepatocellular carcinoma

Pusintin®, the core product of the Company in the field of anti-tumor treatment, was approved for launch in 2021. As of 31 December 2023, Pusintin® has been approved for the treatment of all six indications that can be treated with the originator drug Avastin® approved in mainland China. The special mechanism of bevacizumab enables it to cover a number of cancer treatments, and the market potential for bevacizumab has continued to grow, making it a major category of biological drugs valued at over RMB10.0 billion. According to the statistics and estimates of Frost & Sullivan, the global market size of bevacizumab is expected to reach nearly RMB49.0 billion in 2030, with a CAGR of 7.6% from 2021 to 2030, and the market size of bevacizumab in China is expected to increase to RMB18.4 billion in 2030, with a CAGR of 8.3% from 2021 to 2030. Pusintin® was successfully listed on the 2022 National Reimbursement Drug List as a Class B drug, which significantly improved the affordability and drug accessibility for patients, and the market demand continued to grow. Through close cooperation with Jiangxi Jixin Pharmaceutical Co., Ltd. (江西濟鑫醫藥有限公司), the Company continued to expand the market share of Pusintin®.

In 2023, the Company continued to implement differentiated marketing strategies and further consolidated its market position. Through our differentiated layout, the sales volume of the drug in 2023 increased by 115% year-on-year. In terms of overseas markets, we actively promoted the registration filing for the launch of the drug in overseas markets. As of 31 December 2023, we have initiated the registration application in 23 overseas countries, and the registration application documents have been accepted by 13 countries. We expect to obtain the first approval from an overseas country in 2024 to penetrate overseas markets.

– *Tazian® (Temozolomide capsule)*

- Indications: Newly diagnosed glioblastoma multiforme, initially combined with radiotherapy, and then as maintenance therapy; glioblastoma multiforme or anaplastic astrocytoma that recurs or progresses after conventional treatment

Tazian® was approved for launch by the National Medical Products Administration (NMPA) on 31 May 2021 for the treatment of newly diagnosed glioblastoma or anaplastic astrocytoma. Temozolomide capsules were included in the fourth batch of national centralized procurement catalogue in 2021. In 2022, Tazian® was successfully selected for renewal in the centralized procurement of several allied provinces. As of 31 December 2023, the Company has become the supplier in the renewal of centralized procurement by Jiangsu Province, Hebei Province, Beijing, Guangdong Province and Jiangxi Province during the second year of centralized procurement.

V. INDUSTRY-LEADING LARGE-SCALE AND FLEXIBLE PRODUCTION CAPACITY

1. Commercial Production Bases

With the commercialization of the Company's core products and its CDMO strategic transformation, TOT BIOPHARM continued to expand its production capacity to meet customer demand and increase market share. In 2023, the expansion of commercial production capacity and its results were as follows:

- In April 2023, the second production line for antibody drug substances was completed and put into production and operation, which was equipped with two cell thawing functional rooms as well as 200L, 500L and 2,000L bioreactors, which can meet the needs from clinical to commercial production.
- In June 2023, the second and third production lines for ADC drug substances that meet international GMP standards were completed, which were equipped with OEB-5 isolators, flexible production equipment that can be adapted to a variety of ADC conjugation processes, and equipped with 100L, 200L, and 500L reaction kettles. The conjugation scale can reach 5kg/batch. At the same time, they were equipped with a non-toxic conjugation workshop, which can support non-toxic conjugation projects.
- In June 2023, TOT BIOPHARM's second large-scale commercial production line in China for ADC drug products was completed and put into use. It is equipped with 40m² (2*20m²) freeze-drying machines, which adopt disposable filling system, isolator filling linkage line, automatic feeding and discharging freeze-drying system, can produce freeze-dried products that meets 2R-50R specification. The production line is independently designed for filling, automatic feeding and discharging, and capping, which can realize freeze-drying, injection switching and continuous production.
- In September 2023, TOT BIOPHARM's second commercial production line for antibody injection was completed. It is equipped with a rare 6-axis clean and sterile robot arm, which has high precision and few specifications, and can stably cope with filling requirements. Filling machine and capping machine all adopt a full-feed and full-exhaust fresh air isolator, which can effectively protect the safety of products and operators. At the same time, it is equipped with a 15m² freeze-drying machines and automatic feeding and discharging freeze-drying system, which can produce injection and freeze-dried injection products that meets 2R-50R specification. It can achieve 100% full weighing and designated weighing control modes as well as weighing compensation for filling. The production line is independently designed for filling, automatic feeding and discharging, and capping, which can realize freeze-drying, injection switching and continuous production.

2. Layout of the Company's Production Workshops by Category:

Antibody production workshops	
<p>– Antibody drug substances manufacturing</p> <p>2 independent workshops with annual production capacity of 150 batches and 300,000L</p> <p>200L to 2,000L disposable bioreactors of different scales have been installed to support the production of antibody drug substances, with a total production capacity exceeding 20,000L</p>	
Workshop for antibody drug substances	<ul style="list-style-type: none"> • Production capacity exceeding 20,000L for different scales of antibody drug substances production, namely commercialization projects, pilot tests and small trials • Disposable bioreactors of international leading brands with flexible and continuous production capability for different projects • Gained GMP certification by NMPA
<p>– Antibody drug products manufacturing</p> <p>2 filling lines (including 1 freezing line and 1 injection line)</p> <p>Annual production capacity of 250 batches and annual output of 20 million bottles</p>	
Workshops for antibody drug products	<ul style="list-style-type: none"> • International leading brands of fully automatic filling injection production line and isolator filling linkage production line, which can meet the needs of antibody liquid-injection and freeze-dried products • Equipped with a 6-DOF clean and sterile robot arm which enjoys enormous advantages of supplementary filling in case of insufficient filling, supplementary provision of rubber stoppers and aluminum caps, minimized tailing loss, high yield and convenient replacement of specifications • Independent design of automatic filling linkage line, automatic feeding and discharging as well as capping, which can realize freeze-drying (15m²), liquid injection switching and continuous production, and maximize the utilization of production capacity • Gained GMP certification by NMPA, which can meet the needs of commercial production of self-developed products and the production of CDMO products

ADC production workshops	
<p>– ADC drug substances manufacturing</p> <p>3 independent workshops with annual production capacity of 240 batches and annual output of 960kg</p> <p>Equipped with OEB-5 isolators for weighing active small molecules, and also equipped with 100L, 200L and 500L disposable coupling reactors, with a conjugation scale of up to 5 kg/batch</p>	
Workshop for ADC drug substances	<ul style="list-style-type: none"> • International leading brand of reaction kettles of different scales (5L-500L) and chromatography systems • Up to conjugation scale of 5 kg/batch • Completed clinical production and process validation production of multiple batches of ADC drugs, which are compliant with GMP standards and meet commercialization needs
<p>– ADC drug products manufacturing</p> <p>High-end conjugation drug products manufacturing line in China, equipped with isolators and freeze-drying machines of international leading brands, with an annual production capacity of 5.3 million vials</p> <p>Two ADC drug products manufacturing lines that can produce 2R-50R specifications of freeze-dried products, with a maximum running speed of 200 vials/min</p> <p>Equipped with one 5m² (DP05) and two 20m² (DP06) freeze-drying machines, all equipped with fully automatic feeding and discharging systems</p>	
Workshop for ADC drug products	<ul style="list-style-type: none"> • International leading brands of high-activity isolator filling linkage production lines and freeze-drying machines • Specially designed for the production of scarce high-activity products and equipped with OEB-5 isolators to ensure aseptic production while meeting the needs of personnel safety protection • Independent design of automatic filling linkage line, automatic feeding and discharging as well as capping, which can realize freeze-drying, liquid injection switching and continuous production, and maximize the utilization of production capacity • Equipped with a non-toxic conjugation workshop (DS05), which can support non-toxic conjugation projects

Small molecule chemical drug manufacturing	
Workshop for oral solid drug products	<ul style="list-style-type: none"> • Equipped with commercial production capacity for tablet and capsule drug products • Completed clinical production and process validation production of multiple batches in CDMO projects • Gained GMP certification by NMPA regarding the commercial production of self-developed products • Equipped with an independent OEB-5 production line for highly active cytotoxic products

VI. COMMUNICATION WITHIN THE INDUSTRY AND BRAND PROMOTION

In 2023, we focused on stepping up our efforts to promote our brand in biological drug CDMO, shaping a new brand image through diversified industrial cooperation and exchanges, strengthened product exchanges and the consolidation of industry resources, and accurately targeted customer groups. Based on the high-standard delivery records, the Company has been highly recognized by customers. By continuously improving service quality, technical capabilities and customer empowerment, the Company has continued to bring value to regular customers in order to build trusting relationships and enhance customer stickiness. TOT BIOPHARM strives to become a leading CDMO company in the field of ADC, XDC, AXC and other broader bioconjugates drugs to enable the rapid development of the industry, and is committed to becoming a professional CDMO partner in the field of global drug development.

- In May 2023, TOT BIOPHARM, together with PHARMCUBE (醫藥魔方) and many major players in ADC industry, held a salon on the topic of “Innovation Space for Domestic ADC (國產ADC創新空間)” to jointly discuss “How domestic ADC can grow in a challenging environment (國產ADC如何逆流而上)”, promoting the development of biomedical industry to a new level.

- In September 2023, TOT BIOPHARM hosted the pre-forum leaders' closed-door meeting of the "2023 China ADC Autumn Forum" titled "Rejuvenating Journey, Entering TOT BIOPHARM." Dr. Liu, Jun, chief executive officer and executive Director of TOT BIOPHARM, along with the ADC core technology team, engaged in discussions with guests on the path to mutual success between Chinese ADC R&D enterprises and CDMO companies. They also toured TOT BIOPHARM's "one-stop, one-base" antibody & ADC commercial production base, exploring the future development of the ADC industry.



Photo of Leaders' Closed-Door Meeting

- In October 2023, TOT BIOPHARM's Global Research and Development Service Center was officially completed. With a total construction area of 25,000m², it serves as the global headquarters of TOT BIOPHARM, fulfilling both R&D and office functions. The core experiment area includes cell culture process development, purification process development, cell banking, analytical method development, and quality control laboratories. The establishment of the Global Research and Development Service Center integrates the Company's scientific research resources and gathers outstanding talents, further strengthening the Company's capabilities in technical research, process development and quality research for CDMO business. It solidifies a comprehensive layout for drug development and production, providing a more robust foundation for the expansion of CDMO business.



Photo of Global Research and Development Service Center

- In November 2023, Dr. Liu, Jun, chief executive officer and executive Director of TOT BIOPHARM, was invited to attend the 2023 annual meeting of the Sino-American Pharmaceutical Professionals Association-China (SAPA-China). He participated in the roundtable discussion session of the main forum, engaging with numerous industry peers to explore the cutting-edge scientific advancements in innovative drug development.



Photo of SAPA Venue

VII. INVESTOR RELATIONS

The CDMO strategic transformation of TOT BIOPHARM has received high attention from the capital market. A number of leading brokerage analysts and institutional investors visited the Company for on-site research, communicated face-to-face with the management, and conducted in-depth exchanges with the Company on its ADC CDMO business development and strategic planning, which gained high recognition from the capital market. The Company remains committed to establishing effective communication with the capital market, enhancing the transparency, timeliness and completeness of information disclosure, with the aim of increasing investors' understanding and recognition of the Company. Currently, the Company has established a multi-channel communication system to ensure that shareholders and investors can keep abreast of the Company's key business developments from various public platforms. At present, the communication platform includes general meetings, interim and annual reports, announcements, press releases, roadshows, market strategy meetings, investor and analyst presentations, as well as investor open days held by the Company from time to time. Through effective communication with the capital market, the Group has gained high recognition from the market and has won multiple awards.

VIII. COMPANY AWARDS

During the reporting period, the Company's rapidly developing CDMO business and its excellent service quality have earned itself numerous awards and industry recognition, including:

- Honored as one of the "Top 10 Most Promising CDMO Companies" on the 2023 China Biomedical Industry Value List by Huayibang (華醫榜). The selection was based on a comprehensive and in-depth evaluation across six key dimensions: competitive factors, value factors, strategic factors, product factors, team factors and others, affirming the industry influence and growth potential of the Company in the biomedical field.
- Awarded the "2023 Transformation Pioneer" by Gelonghui (格隆匯), a leading global investment research platform in China. The award reflects the recognition of the Company's exceptional financial performance, innovation, resilience and a balanced focus on social and economic benefits.
- Recognized in the "2023 TOP20 China Listed Pharmaceutical Companies in ESG Competitiveness" by Healthcare Executive (E藥經理人), a media with a core team of senior pharmaceutical media professionals and positioned as the "News and Resource Center of the Pharmaceutical Industry," validating the Company's outstanding performance in ESG practices.
- Awarded the "2023 Green Sustainable Development Contribution Award" by syobserve.com (數央網) and gongyidaily.com (數央公益), in collaboration with numerous domestic mass and financial media during the International Green Zero Carbon Festival and ESG Leaders Summit. The award highly acknowledges a company's proactive promotion of green environmental concepts and sustainable development in governance measures, energy saving and emission reduction, supplier management, key raw material control and corporate environmental behaviour evaluation.

IX. CORPORATE VISION, MISSION AND VALUES

In response to the Company's strategic transformation, we have reshaped corporate culture to promote the long-term sustainable development of the Company. Adhering to the values of people-caring, quality-oriented, professional & efficient, cooperative & win-win, innovative & passionate, we strive to improve customer satisfaction and achieve long-term cooperation, and are committed to becoming the industry-leading and most customer-trusted partner in biopharmaceuticals. We continuously strive for the vision of empowering pharmaceutical innovation to improve the quality of life and safeguard human health.

X. FUTURE PROSPECTS

During the reporting period, despite various external challenges and uncertainties, coupled with the slowdown in economic growth, TOT BIOPHARM still achieved growth against the headwind. In 2023, the Group further developed in the biological drug CDMO field, earning the trust of clients and partners with high-standard delivery results. Looking forward to 2024, the Company will continue to focus on XDC CDMO, advancing the implementation of more projects from multiple dimensions. In addition, relying on the brand influence of the Company in the field of CDMO, it will continue to expand its differentiated competitiveness, continue to build a cutting-edge innovative technology platform, and actively explore other broader fields of drug conjugates to inject sustained growth momentum into the Company. In terms of overseas business development, the Company will continue to strengthen the construction of international quality systems, promote more cooperation with leading international biopharmaceutical companies to increase its market share. At the same time, the Company will further leverage its advantage in production capacity and expand the economies of scale effect, continuously advancing the industrialization of its platform. Through a diversified revenue model that includes CDMO and the commercial sales of launched products, the Company will continue to create value for shareholders and contribute to the cause of human health.



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Director	Dr. Liu, Jun (Chief Executive Officer)
Non-executive Directors	Mr. Fu, Shan (Chairperson) Ms. Yeh-Huang, Chun-Ying (Vice Chairperson, redesignated as non-executive Director on 1 January 2023) Mr. Qiu, Yu Min (Resigned as non-executive Director on 12 August 2023) Dr. Liu, Weidong (Appointed as non-executive Director on 12 August 2023)
Independent Non-executive Directors	Ms. Hu, Lan Mr. Chang, Hong-Jen Dr. Wang, De Qian
Senior Management	Ms. Yin, Li Mr. Li, Hongyang Dr. Pan, Zhiwei Ms. Xiao, Ben Dr. Duan, Qing Mr. Wu, Chih-Yuan Ms. Feng, Shan Mr. Chen, Yifan

EXECUTIVE DIRECTOR

Dr. Liu, Jun (劉軍博士), aged 56, joined the Group on 17 October 2016 and was appointed as an executive Director, chief scientific officer and chief executive officer on 26 October 2018, 12 March 2019 and 15 October 2020, respectively. He is also a member of the Strategy and ESG Committee. Dr. Liu, Jun served as vice general manager of the Company between 17 October 2016 and 15 October 2020, and as chief operating officer of the Company between 21 April 2020 and 15 October 2020. He is currently fully responsible for the operation and management of the Group, including research and development, operations management and business development, among others.

Prior to joining the Group, Dr. Liu, Jun was the executive director of biologics research and development department in Shanghai ChemPartner Co., Ltd. between July 2010 and October 2016. Prior to that, he was employed by Bayer US LLC between April 2005 and July 2010 working with Bayer Healthcare as a senior scientist in the United States.

Dr. Liu, Jun obtained a Ph.D. in bioanalytical chemistry from the University of California, Davis in the United States in December 2002 and a bachelor's degree in chemistry from the University of Science & Technology of China in Hefei, Anhui Province, the PRC in July 1991.

NON-EXECUTIVE DIRECTORS

Mr. Fu, Shan (付山先生), aged 56, joined the Group on 19 January 2016 as a non-executive Director and was appointed the chairperson of the Board on 28 September 2018. He is also the chairperson of the Nomination Committee and the Strategy and ESG Committee. He has previously used the Chinese name "Fu Shan (傅山)".

Mr. Fu has since October 2013 been a managing partner, a co-CEO and the Greater China CEO of Vivo Capital LLC, which is an investment management firm that primarily invests in the field of biotechnology and healthcare. Between June 2008 and October 2013, Mr. Fu worked as a senior managing director in the Beijing branch of Blackstone (Shanghai) Equity Investment Management Company Limited. He has been a non-executive director of LEPUSciencetech Medical Technology (Shanghai) Co., Ltd. (Hong Kong Stock Exchange: 2291) since June 2021 and a director of Sinovac Biotech Ltd. (NASDAQ: SVA) since July 2018. He was a director of Genetron Holdings Limited (NASDAQ: GTH) from June 2021 and March 2024 and a non-executive director of InnoCare Pharma Limited (Hong Kong Stock Exchange: 9969; Shanghai Stock Exchange STAR Market: 688428) from February 2018 to March 2023.

Mr. Fu obtained a master's degree in history and a bachelor's degree in history, both from Peking University in Beijing, the PRC, in July 1991 and July 1988, respectively.

NON-EXECUTIVE DIRECTORS (cont'd)

Ms. Yeh-Huang, Chun-Ying (黃純瑩女士), aged 65, joined the Group on 5 July 2010 and was appointed as the vice chairperson of the Board on 15 October 2020. She is also a member of the Strategy and ESG Committee. Ms. Yeh-Huang served as the general manager of the Group between 5 July 2010 and 15 October 2020. Ms. Yeh-Huang was re-designated from an executive Director to a non-executive Director of the Company with effect from 1 January 2023 and has been responsible for the oversight of strategy formulation and development of the Group.

From April 1986 to December 2015, Ms. Yeh-Huang worked at TTY Biopharm Company Limited, during which she became an executive vice president of the oncology science business development unit in April 2011. As the head of TTY Biopharm Company Limited's oncology science business development unit, she was responsible for product development, clinical research, marketing and sales. She also managed cancer translation centers and medical academies and was responsible for the expansion of oncology science business market construction and team management in China and Vietnam. She was a pharmacist of Taipei Veterans General Hospital from July 1983 to August 1985.

Ms. Yeh-Huang obtained a bachelor's degree in pharmacy from Taipei Medical College (now known as Taipei Medical University) in Taiwan in June 1982 and obtained her Taiwan license of pharmacist in June 1983.

Dr. Liu, Weidong (劉衛東博士), aged 55, joined the Group on 12 August 2023 as a non-executive Director of the Company and a Director of TOT BIOPHARM Co., Ltd. (東曜藥業有限公司), a wholly-owned subsidiary of the Company. He is also the chairperson of the Remuneration Committee and a member of each of the Audit and Connected Transactions Review Committee and the Strategy and ESG Committee.

Dr. Liu, Weidong possesses extensive experience in pharmaceutical process research and development as well as CMC (chemistry, manufacturing and controls) management. He worked at Array BioPharma Inc. (formerly NASDAQ: ARRY; now part of Pfizer Inc. (New York Stock Exchange: PFE)) from October 2001 to May 2015 with his last position as principal research investigator of process chemistry. He then worked at Avista Pharma Solutions (now part of Cambrex Corporation (formerly New York Stock Exchange: CBM)) from June 2015 to February 2016 as director of process chemistry, and at Changzhou STA Pharmaceutical R&D Co., Ltd. (常州合全新藥研發有限公司) (a subsidiary of WuXi AppTec Co., Ltd. (無錫藥明康德新藥開發股份有限公司) (Hong Kong Stock Exchange: 2359; Shanghai Stock Exchange: 603259)) from March 2016 to April 2017 as executive director of process research and development.

Dr. Liu, Weidong joined Vivo Capital LLC in August 2017 and is currently serving as managing director. He served as a director of Genetron Holdings Limited (NASDAQ: GTH) between November 2019 and June 2021.

Dr. Liu, Weidong obtained a bachelor's degree and a master's degree in chemistry from Peking University (北京大學) in China in 1989 and 1994, respectively, and obtained a Ph.D. in organic chemistry from the University of Pittsburgh in the United States in 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Hu, Lan (胡蘭女士), aged 52, joined the Group on 12 March 2019 as an independent non-executive Director. She is also the chairperson of the Audit and Connected Transactions Review Committee, and a member of the Nomination Committee.

Ms. Hu has more than 20 years of experience working at international accounting firms, through which she has gained accounting and financial management expertise. Ms. Hu was a partner of the consulting services department of PricewaterhouseCoopers between July 2008 and June 2018. During this period, she led financial due diligence projects for corporate and financial buyers, with a focus on analyzing the financial statements, reviewing the profit forecasts and reviewing the internal control reports of target companies. Prior to that, she worked at PricewaterhouseCoopers from July 2002, and previously at Arthur Andersen from July 1994. During these periods, she served as a public accountant and was responsible for auditing and reviewing the financial statements of listing applicants and listed companies. She has been an independent non-executive director of InnoCare Pharma Limited (Hong Kong Stock Exchange: 9969; Shanghai Stock Exchange STAR Market: 688428) since March 2020.

Ms. Hu obtained an MBA degree from University at Buffalo, the State University of New York in the United States in February 2005 and a bachelor's degree in accounting from Beijing Machinery and Industrial Institute in Beijing, the PRC in July 1994. She gained her Chinese Institute of Certified Public Accountants qualification in March 1997.

Mr. Chang, Hong-Jen (張鴻仁先生), aged 67, joined the Group on 12 March 2019 as an independent non-executive Director. He is also a member of the Audit and Connected Transactions Review Committee and the Remuneration Committee. He has over 15 years of experience in biotech investment.

Mr. Chang has served as an adjunct professor of Institute of Public Health, National Yang-Ming Chiao Tung University (Formerly known as National Yang-Ming University) from August 2005, the Chairman of YFY Biotech Management Co., Ltd. from July 2005, the Chairman of MiCareo Taiwan Co., Ltd. from July 2011, and the Chairman of EUSOL Biotech Co., Ltd. (Taipei Exchange: 6652) from October 2009. He has been a director of Excelsior Biopharma Inc. (Taipei Exchange: 6496) from June 2015, a director of TaiGen Biopharmaceuticals Holdings Limited (Taipei Exchange: 4157) from April 2013, a director of Medeon Biodesign, Inc. (Taipei Exchange: 6499) from July 2018, a director of Formosa Pharmaceuticals Inc. (Taipei Exchange: 6838) from June 2020, and an independent director of Maywufa Company Ltd. (美吾華股份有限公司) (Taipei Exchange: 1731) since May 2023. He was also a director of Taiwan Liposome Company Ltd. (formerly Taipei Exchange: 4152) from June 2007 to June 2019.

Mr. Chang worked in the Department of Health of Taiwan's Executive Yuan from February 2001 to November 2004, where his last position held was as the Deputy Minister.

Mr. Chang obtained his bachelor's degree in medicine from National Yang-Ming Medical College in Taiwan in June 1982, master's degree in public health from National Taiwan University in Taiwan in June 1984, and master's degree in health services administration from Harvard University in the United States in June 1987.

Dr. Wang, De Qian (汪德潛博士), aged 73, joined the Group on 12 March 2022 as an independent non-executive Director. He is also a member of the Remuneration Committee, the Nomination Committee and the Strategy and ESG Committee.

Dr. Wang possesses extensive experience in the area of biopharmacy. He obtained a bachelor's degree in agricultural machinery from Liaoning Agricultural College (now known as Shenyang Agricultural University) in China in 1977, and obtained a master of science degree in bioresource engineering and a Ph.D. in mechanical engineering (bioengineering) from Oregon State University in the United States in 1987 and 1991, respectively. He served multiple positions under the Bayer AG (Frankfurt Stock Exchange: BAYN) group between 1994 and 2016, and served as vice president of a subsidiary of WuXi Biologics (Cayman) Inc. (Hong Kong Stock Exchange: 2269) between 2016 and 2021.

SENIOR MANAGEMENT

Ms. Yin, Li (陰麗女士), aged 59, joined the Group in November 2023 as the Chief Technology Officer, in charge of the Group's ADC research centre and overseas business development. Ms. Yin has over 30 years of experience in chemistry and biopharmaceutical industries.

Prior to joining the Group, between September 2014 and October 2023, Ms. Yin served as the head of bio-conjugation development of WuXi Biologics Co., Ltd., a subsidiary of WuXi Biologics (Cayman) Inc. (Hong Kong Stock Exchange: 2269) and the head of new technology development and business support of WuXi XDC Co., Ltd., a subsidiary of WuXi XDC Cayman Inc. (Hong Kong Stock Exchange: 2268). Prior to that, Ms. Yin had successively worked for several biopharmaceutical companies in the United States, including Sigma Aldrich, DuPont-Merck Pharmaceuticals and Amgen.

Ms. Yin received a bachelor's degree in chemistry from Peking University in the PRC and a master's degree in chemistry from Purdue University in the United States.

Mr. Li, Hongyang (李鴻陽先生), aged 60, joined the Group in January 2024 as the Vice President of Quality, responsible for the Group's quality management and quality strategy improvement. Mr. Li has abundant experience in quality management, manufacturing science & technology (MS&T) and production at multi-national pharmaceutical companies.

Prior to joining the Group, Mr. Li worked at Suzhou Novartis Technical Development Co., Ltd., a subsidiary of Novartis AG (New York Stock Exchange: NVS), from November 2012 to November 2023, serving as the site quality head and the APAC and local market manufacturing platform MS&T head successively. Prior to that, Mr. Li had worked for well-known multinational pharmaceutical companies such as Novo Nordisk and Eli Lilly.

Mr. Li obtained his bachelor's degree and master's degree in biology from Nankai University in China in 1986 and 1989 respectively, and a master's degree in manufacturing management from Pennsylvania State University in 2003.

Dr. Pan, Zhiwei (潘志衛博士), aged 50, joined the Group in March 2023 as vice president of CMC (chemistry, manufacturing and controls), in charge of the process development, pilot manufacturing, technology transfer and CMC project management of the Group.

Prior to joining the Group, Dr. Pan served as executive director of Suzhou Junmeng Biopharm Co., Ltd., a subsidiary of Shanghai Junshi Biosciences Co., Ltd. (Hong Kong Stock Exchange: 1877; Shanghai Stock Exchange: 688180), between January 2019 and March 2023. Between 2014 and 2018, Dr. Pan served as senior director of Livzon MABPharm Inc., a subsidiary of Livzon Pharmaceutical Group Inc. (Hong Kong Stock Exchange: 1513; Shenzhen Stock Exchange: 000513). Dr. Pan served as director of Zhejiang Teruisi Pharmaceutical Inc. between 2012 and 2014. Prior to that, Dr. Pan worked at Shire HGT in the United States (now part of Takeda) as senior bioengineer between 2007 and 2012.

Dr. Pan received a bachelor's degree in fermentation engineering from Wuxi University of Light Industry (now known as Jiangnan University) in the PRC in 1995 and a master's degree in biochemical engineering from East China University of Science and Technology in the PRC in 2000. Dr. Pan obtained a Ph.D. in chemical engineering from the University of Pittsburgh in the United States in 2007.

SENIOR MANAGEMENT (cont'd)

Ms. Xiao, Ben (肖賁女士), aged 43, joined the Group in January 2022, and was appointed as executive finance director of the Group in October 2022, in charge of the financial management, investment, financing matters and investor relationship of the Group.

Prior to joining the Group, Ms. Xiao served as group chief financial officer of a multinational corporation specializing in the research and development and production of renewable energy solutions between June 2021 and October 2021. Between November 2016 and May 2021, she served as group chief financial officer of Fuba Automotive Electronics GmbH in Germany, and also assumed the position of managing director of its Suzhou subsidiary, the PRC since August 2019. Between November 2005 and September 2016, she successively served as group accounting and finance consultant and group accounting and finance specialist of Wincor Nixdorf International GmbH in Germany, an information technology solutions provider under Wincor Nixdorf AG (formerly Frankfurt Stock Exchange: WIN) which was merged into Diebold Nixdorf, Inc. (New York Stock Exchange: DBD) in 2016.

From 1998 to 2005, Ms. Xiao successively attended Beijing Foreign Studies University in the PRC with a focus on German, and Paderborn University (*Universität Paderborn*) in Germany with a focus on business, economics, accounting and taxation, and received a degree equivalent to a master's degree in business administration (*Diplom-Kauffrau*) from Paderborn University in 2005. Ms. Xiao is a Fellow of The Chartered Institute of Management Accountants of the United Kingdom (FCMA), and is also recognized as a Chartered Global Management Accountant (CGMA).

Dr. Duan, Qing (段清博士), aged 41, joined the Group in April 2019. Currently, he is the executive director of the new drug development division. Prior to joining the Group, Dr. Duan worked at Shanghai PharmaExplorer Co., Ltd. from April 2017 to March 2019. Between September 2011 and March 2017, he worked at Shanghai ChemPartner Co., Ltd..

Dr. Duan received a bachelor's degree in biotechnology from Shanghai Jiao Tong University in the PRC in July 2003 and a Ph.D. in cell biology from Shanghai Institutes for Biological Sciences, Chinese Academy of Sciences in the PRC in January 2009.

Mr. Wu, Chih-Yuan (吳志遠先生), aged 51, joined the Group in January 2016, and was appointed as a senior director of the strategy and business development in April 2019. Prior to joining the Group, Mr. Wu was a director of TTY Biopharm Company Limited's oncology science business development unit from February 2014 to December 2015. He was a director of market advisory department in Taiho Pharmaceutical of Beijing Co., Ltd. from January 2009 to September 2011. Mr. Wu worked at TTY Biopharm Company Limited's marketing department between August 2002 and November 2008, assuming positions such as group product manager.

Mr. Wu obtained a bachelor's degree in pharmacy from National Taiwan University in Taiwan in June 1995.

SENIOR MANAGEMENT *(cont'd)*

Ms. Feng, Shan (馮珊女士), aged 45, joined the Group in December 2014, and was appointed as a senior director of the regulatory affairs department in April 2019. Prior to joining the Group, Ms. Feng was a manager of regulatory affairs department of EPS International (China) Co., Ltd., Beijing branch under EPS Group from April 2007 to October 2014. Between July 2002 and April 2007, she successively worked at Chugai Pharmaceutical Co., Ltd., Beijing office and Chugai Pharma (Shanghai) Consulting Co., Ltd., Beijing branch as a senior supervisor, mainly in charge of drug registration and academic affairs.

Ms. Feng received a bachelor's degree in pharmacy (Japanese) from Shenyang Pharmaceutical University in the PRC in July 2002.

Mr. Chen, Yifan (陳一帆先生), aged 44, joined the Group in May 2020 as senior director of the legal compliance division, in charge of the overall legal and intellectual property affairs of the Group. He was appointed as a joint company secretary of the Company on 1 February 2022.

Prior to joining the Group, Mr. Chen served as corporate counsel of Flextronics Electronics Technology (Suzhou) Co., Ltd., a subsidiary of Flex Ltd. (NASDAQ: FLEX), between January 2017 and May 2020, during which he was responsible for legal affairs in North Asia. Between July 2012 and December 2016, he served as senior legal manager of MFLEX Suzhou Co., Ltd., a subsidiary of Multi-Fineline Electronix, Inc. (formerly NASDAQ: MFLX), during which he was responsible for legal and compliance affairs in Greater China. Between March 2008 and May 2012, he served as legal manager of CSI Solar Power (China) Inc., a subsidiary of Canadian Solar Inc. (NASDAQ: CSIQ), during which he was responsible for legal affairs in the PRC. Mr. Chen was an attorney-at-law in the Nanjing office and Shanghai office of Tianzhiquan Law Firm in 2002 and 2003, respectively.

Mr. Chen received a bachelor's degree in law from Nanjing University in the PRC in 2002 and a master's degree in professional accounting from the University of Canberra in Australia in 2005. Mr. Chen was admitted as a PRC lawyer.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE CULTURE AND PURPOSE

Corporate governance is the basis of the modern enterprise system, which includes rules, practices and processes by which the Company is directed and controlled. The primary objective of corporate governance is to improve our performance to create long-term shareholder values. To achieve that, the Company is committed to ensuring our activities are conducted in accordance with high ethical standards.

The basic principles of the Company corporate governance are accountability, transparency, fairness, responsibility and risk management. Since corporate governance provides the framework for attaining a company's objectives, it encompasses practically every sphere of management. However, we believe our Board of Directors is the primary force influencing corporate governance. Our Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- Satisfactory and sustainable returns to our investors and shareholders;
- Balancing the interest of our stakeholders, including shareholders, senior management, employees, customers, suppliers, the government, the community and other business partners;
- The overall business risks are identified, understood and managed appropriately;
- The delivery of high-quality products and excellent services to our patients and clients; and
- High standards of ethics are maintained.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving and establishing high standards of corporate governance.

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

The Company has adopted the principles and code provisions of the CG Code contained in Appendix C1 of the Listing Rules as the basis of the Company's corporate governance practices.

The Company has devised its own Corporate Governance Policy which incorporates the principles and practices as set out in the CG Code.

The Board is of the view that throughout the year ended 31 December 2023, the Company has complied with all the applicable code provisions as set out in the CG Code.

With the commercialization of our drugs, under the supervision of the Board, the Company launched a Compliance Audit ("Audit") to the Company's Contract Sales Organizations ("CSO") starting from the third quarter of 2022. The purpose of the Audit is to identify, monitor and safeguard the potential risks from the market promotion of our drugs by the CSO in this special period of business transformation from drug research and development to commercialization, and to establish a CSO compliance management system based on institution, organization, operation and security systems. This Audit is expected to effectively enhance awareness of the CSO compliance risk of the Company as a whole and all staff in core positions, prevent and respond to CSO compliance risks, and lay the foundation for the Company to control relevant risks for a long term. This Audit is conducted by a law firm with rich experiences in compliance, especially in the pharmaceutical industry. This Audit comprises reviewing documents from both the Company and the CSO, as well as interviews with the Directors, management of the Company, and the staffs from CSO. This Audit was finalized in the first half of 2023 and its final result has been presented to and reviewed by the Audit and Connected Transactions Review Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix C3 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2023.

The Company has also established written guidelines including the Code of Conduct and Ethics and the Insider Dealing Policy (collectively, the “Employees Written Guidelines”) no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. For the purpose of effective execution of the Employees Written Guidelines, the Company also provided internal and external training sessions to senior managers and other employees. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

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

Board Composition

As of 31 December 2023, the Board comprises seven Directors, consisting of one Executive Director, three Non-executive Directors and three Independent Non-executive Directors as follows:

Executive Director

Dr. Liu, Jun (*Chief Executive Officer*)

Non-executive Directors

Mr. Fu, Shan (*Chairperson of the Board*)

Ms. Yeh-Huang, Chun-Ying (*Vice Chairperson of the Board*)

Dr. Liu, Weidong

Independent Non-executive Directors

Ms. Hu, Lan

Mr. Chang, Hong-Jen

Dr. Wang, De Qian

Dr. Liu, Weidong, who has been appointed as a Non-executive Director during the financial year ended 31 December 2023, obtained on 18 August 2023 the legal advice referred to in Rule 3.09D of the Listing Rules as regards the requirements under the Listing Rules that are applicable to him as a director of a listed issuer and the possible consequences of making a false declaration or giving false information to the Stock Exchange, and he has confirmed he understood his obligations as a director of a listed issuer.

The biographical information of the above Directors is set out in the section headed “Biographies of Directors and Senior Management” on pages 30 to 35 of this annual report.

Save and except that both Mr. Fu, Shan and Dr. Liu, Weidong represent Vivo Capital LLC on the Board, none of the above members of the Board was related to one another.

BOARD OF DIRECTORS *(cont'd)*

Board Meetings and Directors' Attendance Records

Code provision C.5.1 of the CG Code stipulates that regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Code provision C.2.7 of the CG Code stipulates that the chairman of the Board should at least annually hold meetings with independent non-executive Directors without the presence of other directors. Apart from regular Board meetings, the Chairman also held one meeting with the independent non-executive directors without the presence of other Directors during the year.

A summary of the attendance records of the Directors at the Board meetings held during the year ended 31 December 2023 is set out below:

Name of Directors	Attendance
Dr. Liu, Jun (<i>Chief Executive Officer</i>)	4/4
Mr. Fu, Shan (<i>Chairperson of the Board</i>)	4/4
Ms. Yeh-Huang, Chun-Ying (<i>Vice Chairperson of the Board</i>)	4/4
Mr. Qiu, Yu Min (<i>resigned on 12 August 2023</i>)	3/3
Dr. Liu, Weidong (<i>appointed on 12 August 2023</i>)	1/1
Ms. Hu, Lan	4/4
Mr. Chang, Hong-Jen	4/4
Dr. Wang, De Qian	4/4

Chairperson and Chief Executive Officer

The positions of Chairperson and Chief Executive Officer are held by Mr. Fu, Shan and Dr. Liu, Jun respectively. The roles of the Chairperson and Chief Executive Officer are separate and exercised by different individuals. The Chairperson provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

BOARD OF DIRECTORS (cont'd)

Independent Non-executive Directors and Board Independence

During the year ended 31 December 2023, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom (namely, Ms. Hu, Lan) possessing accounting professional qualifications and related financial management expertise.

The Board and the Nomination Committee regularly review, assess and report Board independence in accordance with the Terms of Reference of the Nomination Committee, Director Nomination Policy and Board Diversity Policy. The Nomination Committee reviewed and considered that the following key features or mechanisms under the Board and governance structure remained effective for the year ended 31 December 2023 in ensuring that independent views and input were provided to the Board:

Board and Committees Structure

- The Board comprises a majority of non-executive Directors and independent non-executive Directors. The Chief Executive Officer is the only executive Director on the Board as of the date of this report.
- The Board consists of three independent non-executive Directors (42.9% of the Board), who are independent of and not related to each other and any members of the senior management.
- The majority of all Board committees (except Strategy and ESG Committee) are independent non-executive Directors.

Appointment of Directors

- In assessing suitability of the candidates, the Nomination Committee will review their character and integrity; qualifications including professional qualifications, skills, knowledge and relevant experience; diversity in all aspects, including but not limited to gender, age, cultural and educational background; requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors; and commitment in respect of available time and relevant interest to discharge duties as a member of the Board, having regard to the Board's composition, the selection criteria approved by the Board, Terms of Reference of the Nomination Committee and the Board Diversity Policy.

Annual Review of Directors' Commitment

- The Nomination Committee reviews annually each Director's time commitment to the Group's business.
- Directors' attendance records in 2023 are disclosed in this Corporate Governance Report.

Annual Review of Directors' Independence

- Each independent non-executive Director is required to inform the Stock Exchange as soon as practicable if there is any change in his/her personal particulars that may affect his/her independence. No such notification was received during the year ended 31 December 2023.

Professional Advice

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

BOARD OF DIRECTORS *(cont'd)*

Appointment and Re-election of Directors

Code provision B.2.2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive Directors including independent non-executive Directors of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

Under the Amended and Restated Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but greater than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Amended and Restated Articles of Association also provides that all Directors appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

The Directors shall disclose to the Company details of other offices held by them (if any).

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. The insurance coverage would be reviewed on an annual basis.

BOARD OF DIRECTORS (cont'd)

Continuous Professional Development of Directors

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

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company. Also, all Directors have received formal and comprehensive training on 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 industry seminars and relevant training courses at the Company's expenses.

During the year ended 31 December 2023, the Company continued to provide latest information and learning materials to all Directors and organized training sessions conducted by qualified professionals for all Directors, and the Directors complied with the code provision C.1.4 of the CG Code. The professional training sessions and learning materials covered a wide range of relevant topics including directors' duties and responsibilities, corporate governance and regulatory updates. In addition, relevant reading materials including compliance manual, legal and regulatory updates and the latest industry and capital market information were provided to the Directors for their reference and studying.

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

Name of Directors	Type of Training ^{Note}
Executive Directors	
Dr. Liu, Jun (<i>Chief Executive Officer</i>)	A, B
Non-executive Directors	
Mr. Fu, Shan (<i>Chairperson of the Board</i>)	B
Ms. Yeh-Huang, Chun-Ying (<i>Vice Chairperson of the Board</i>)	A, B
Mr. Qiu, Yu Min (resigned on 12 August 2023)	B
Dr. Liu, Weidong (appointed on 12 August 2023)	B
Independent Non-executive Directors	
Ms. Hu, Lan	A, B
Mr. Chang, Hong-Jen	A, B
Dr. Wang, De Qian	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 (including the Stock Exchange's letters to authorized representatives of listed issuers).

BOARD COMMITTEES

The Board has established four committees, namely, the Audit and Connected Transactions Review Committee, Remuneration Committee, Nomination Committee and Strategy and ESG 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.

The list of the chairperson and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

Audit and Connected Transactions Review Committee

During the year ended 31 December 2023, the Audit and Connected Transactions Review Committee consisted of three members, namely Ms. Hu, Lan (independent non-executive Director), Dr. Liu, Weidong (non-executive Director, replacing Mr. Qiu, Yu Min on 12 August 2023) and Mr. Chang, Hong-Jen (independent non-executive Director), majority of whom are independent non-executive Directors. Ms. Hu, Lan is the chairperson of the Audit and Connected Transactions Review Committee and she holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit and Connected Transactions Review Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Audit and Connected Transactions Review Committee include:

- making recommendations to the Board on the appointment, reappointment and removal of external auditors, approving the remuneration and terms of engagement of external auditors, and dealing with any issues in relation to resignation or dismissal of external auditors;
- reviewing and monitoring external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, discussing with auditors on the nature and scope of the audit work and reporting obligations before the audit commences;

- developing and implementing policies with respect to the non-audit work provided by external auditors;
- examining the completeness of the Group's financial statements and the Group's quarterly, interim and annual reports, and reviewing critical financial reporting judgments contained therein;
- overseeing the Group's financial reporting, risk management and internal control systems;
- managing matters related to connected transactions;
- reviewing and approving the Group's connected transactions and other related matters to the extent authorized by the Board;
- formulating, monitoring and overseeing the anti-corruption and anti-bribery policies and systems of the Group;
- formulating, monitoring and overseeing the whistle-blowing policies and systems of the Group; and
- providing information for the independent non-executive Directors and auditors to perform their annual review of the connected transactions.

During the year ended 31 December 2023, the Audit and Connected Transactions Review Committee held five meetings to, among other things, review, consider and approve the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works, connected transactions, and arrangements for employees to raise concerns about possible improprieties.

During the year ended 31 December 2023, the Audit and Connected Transactions Review Committee also had meetings with the external auditors no less than twice without the presence of the Executive Director.

BOARD COMMITTEES (cont'd)

Audit and Connected Transactions Review Committee (cont'd)

The attendance records of the members of the Audit and Connected Transactions Review Committee are as follows:

Name of Members of the Audit and Connected Transactions Review Committee	Attendance
Ms. Hu, Lan	5/5
Mr. Qiu, Yu Min (Resigned on 12 August 2023)	4/4
Mr. Chang, Hong-Jen	5/5
Dr. Liu, Weidong (appointed on 12 August 2023)	1/1

Remuneration Committee

During the year ended 31 December 2023, the Remuneration Committee consisted of three members, namely Dr. Liu, Weidong (non-executive Director, replacing Mr. Qiu, Yu Min on 12 August 2023), Mr. Chang, Hong-Jen (independent non-executive Director) and Dr. Wang, De Qian (independent non-executive Director). Dr. Liu, Weidong is the chairperson of the Remuneration Committee who was appointed on 12 August 2023 with Mr. Qiu, Yu Min ceased to be the chairperson on the same day.

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

The primary functions of the Remuneration Committee include:

- making recommendations to the Board on the compensation remuneration packages of individual executive Directors and senior management and on the compensation of non-executive Director;
- making recommendations to the Board on the management's remuneration proposals;
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration;
- developing policies and structure for remuneration of all Directors, senior management and employees including salaries, incentive schemes and other share schemes, and making recommendations to the Board; and
- reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules, including any grants of options or awards to directors, senior management, consultants and employees and making disclosure and giving explanation on the appropriateness to such material matters (if any) being approved in the corporate governance report.

During the year ended 31 December 2023, the Remuneration Committee held three meetings to, among other things, review the performance and compensation remuneration packages of individual executive Directors, make recommendations to the Board on the compensation remuneration packages of individual executive Directors and senior management and on the compensation of non-executive Directors, make recommendations to the Board on the management's remuneration proposals, make recommendations to the Board on the adoption of amendments to Restricted Share Award Scheme and make recommendations to the Board on disclosure with respect to Directors' remuneration included in the annual report.

Details of the remuneration of the senior management by band are set out in the section headed "Management Discussion and Analysis – Financial Summary – Employees and Remuneration" on pages 12 to 13 of this annual report.

BOARD COMMITTEES (cont'd)**Remuneration Committee** (cont'd)

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

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
Mr. Qiu, Yu Min (Resigned on 12 August 2023)	2/2
Dr. Liu, Weidong (appointed on 12 August 2023)	1/1
Mr. Chang, Hong-Jen	3/3
Dr. Wang, De Qian	3/3

Nomination Committee

During the year ended 31 December 2023, the Nomination Committee consisted of three members, namely Mr. Fu, Shan (non-executive Director), Ms. Hu, Lan (independent non-executive Director) and Dr. Wang, De Qian (independent non-executive Director). Mr. Fu, Shan is the chairperson of the Nomination Committee.

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

The primary functions of the Nomination Committee include:

- reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and making recommendations to the Board;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on the appointment and succession planning of Directors;

BOARD COMMITTEES (cont'd)

Nomination Committee (cont'd)

- reviewing the diversification policy and its implementation on an annual basis, developing and reviewing measurable objectives for implementing the diversification policy and monitoring the progress on achieving these objectives;
- formulating and reviewing the policy for the nomination of directors which includes the nomination process and the criteria;
- formulating and reviewing on an annual basis the mechanism to ensure independent views and inputs are available to the Board; and
- reviewing and monitoring the training and continuous professional development of directors, coordinating with the Company for arranging appropriate trainings with appropriate focus on the roles, functions and responsibilities of director.

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

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the year ended 31 December 2023, the Nomination Committee held one meeting to, among other things, review the structure, size and composition of the Board and assess the independence of the independent non-executive Directors.

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Mr. Fu, Shan	1/1
Ms. Hu, Lan	1/1
Dr. Wang, De Qian	1/1

BOARD COMMITTEES *(cont'd)*

Strategy and ESG Committee

In order to cater for the strategic development need of the Company and strengthen its environmental, social and governance ("ESG") work, so as to further improve the Company's corporate governance structure, determine the Company's development plan, improve the Company's scientific decision-making standard, continuously strengthen the Company's core competitiveness and ensure the Company's sustainable development, the Strategy Committee under the Board had been renamed as the Strategy and ESG Committee on 23 December 2021, with ESG management responsibilities added and the responsibilities of the original Strategy Committee remaining unchanged.

During the year ended 31 December 2023, the Strategy and ESG Committee consisted of five members, namely Mr. Fu, Shan (non-executive Director), Dr. Liu, Jun (executive Director), Ms. Yeh-Huang, Chun-Ying (non-executive Director), Dr. Liu, Weidong (non-executive Director, replacing Mr. Qiu, Yu Min on 12 August 2023) and Dr. Wang, De Qian (independent non-executive Director). Mr. Fu, Shan is the chairperson of the Strategy and ESG Committee.

The primary functions of the Strategy and ESG Committee include:

- reviewing and making recommendations to the Board on the long-term strategic development plans of the Company;
- reviewing and making recommendations to the Board in relation to any significant capital operations (including but not limited to the alternation of the registered issued share capital; issuance of bonds or other securities; the merger, separation, dissolution or transformation of company structure of the Company or any of its wholly owned or holding subsidiaries; the Company's profit distribution plan and plans for loss recovery), asset management projects, the Company's annual financial budget plan, and final accounts;
- reviewing and making recommendations to the Board on any financing investment projects relating to issuance of securities by the Company or any of its wholly owned or holding subsidiaries;
- reviewing the Group's major investment and financing proposals in accordance with the Amended and Restated Articles of Association and overseas investment management measures, and making recommendations to the Board;
- making recommendations to the Board on any major matters that would affect the Company's development;
- implementing and supervising the above items, reviewing, evaluating and making recommendations on any major changes made to these items, for the Board's approval;
- developing the Company's ESG objectives, strategies and structure, reviewing the progress in achieving the Company's ESG objectives, and making recommendations to the Board on relevant ESG work in line with the Company's strategic development;
- reviewing ESG-related issues that have a significant impact on the Company's operations and/or the interests of other key stakeholders;
- considering the Company's assessment of its environmental and social impact, and reviewing international and China's ESG trends, in order to ensure the effective assessment of potential impact, opportunities and risks to the Company's business;
- monitoring the implementation of the Company's ESG policies and strengthening process control to ensure that the sustainability and effectiveness of the relevant actions in compliance with applicable laws and regulatory requirements;

BOARD COMMITTEES (cont'd)

Strategy and ESG Committee (cont'd)

- referring to key ESG reporting guidance for the relevant industry or sector, and to widely consider suggestions from stakeholders or to seek independent assurance verification by third parties in order to strengthen the scientific management of ESG and the credibility of ESG information disclosure;
- making timely, accurately and complete information disclosure under the requirements of the Listing Rules, the CG Code (set out in Appendix C1 to the Listing Rules) and the Environmental, Social and Governance Reporting Guide (set out in Appendix C2 to the Listing Rules); and
- other matters authorized by the Board.

During the year ended 31 December 2023, the Strategy and ESG Committee held one meeting.

The attendance records of the members of the Strategy and ESG Committee are as follows:

Name of Members of the Strategy and ESG Committee	Attendance
Mr. Fu, Shan	1/1
Dr. Liu, Jun	1/1
Ms. Yeh-Huang, Chun-Ying	1/1
Dr. Liu, Weidong	1/1
Dr. Wang, De Qian	1/1
Mr. Qiu, Yu Min (Resigned on 12 August 2023)	N/A

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

BOARD COMMITTEES (cont'd)

Board Diversity Policy (cont'd)

An analysis of the Board's current composition based on the measurable objectives is set out below:

Gender

Male:	5 Directors
Female:	2 Directors

Age Group

51-60:	4 Directors
61-70:	2 Directors
71-80:	1 Director

Nationality

Chinese:	5 Directors
American:	2 Directors

Business Experience

Accounting & Finance:	1 Director
Biopharmaceutical:	6 Directors

At present, the Nomination Committee considered that the Board is sufficiently diverse and can provide professional advice to the Company to support its long-term development strategies.

The Nomination Committee will also review the Board Diversity Policy annually, as appropriate, to ensure its effectiveness.

Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this report:

	Female	Male
Board	29%	71%
	(2)	(5)
Senior management	37%	63%
	(3)	(5)
Other employees	51%	49%
	(272)	(265)
Overall workforce	50%	50%
	(277)	(275)

The Board had targeted to achieve and had achieved at least having two female Directors, and encouraging female senior management and female employees to join the Group and considers that the above current gender diversity is satisfactory.

BOARD COMMITTEES (cont'd)

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

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

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of independent non-executive directors on the Board and independence of the proposed independent non-executive directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2023, Mr. Qiu, Yu Min had resigned as non-executive Director on 12 August 2023 and Dr. Liu, Weidong had been appointed as non-executive Director on 12 August 2023. Save as disclosed above, during the year ended 31 December 2023, there was no change in the composition of the Board.

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

Appointment of New Director

- (i) The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.
- (ii) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
- (iii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

BOARD COMMITTEES *(cont'd)*

Appointment of New Director *(cont'd)*

- (iv) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.
- (v) For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

Re-election of Director at General Meeting

- (i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring Director and the level of participation and performance on the Board.
- (ii) The Nomination Committee and/or the Board should also review and determine whether the retiring Director continues to meet the criteria as set out above.
- (iii) The Nomination Committee and/or the Board should then make recommendation to Shareholders in respect of the proposed re-election of Director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as Director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

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

During the year ended 31 December 2023 and up to the date of this report, the Board has 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 the Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this report.

BOARD COMMITTEES (cont'd)**Attendance Records of Directors**

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2023 is set out in the table below:

Name of Directors	Attendance/Number of Meetings					
	Board	Audit and Connected Transactions Review Committee	Remuneration Committee	Nomination Committee	Strategy and ESG Committee	General Meeting
Executive Director						
Dr. Liu, Jun	4/4	–	–	–	1/1	1/1
Non-executive Directors						
Mr. Fu, Shan	4/4	–	–	1/1	1/1	0/1
Ms. Yeh-Huang, Chun-Ying	4/4	–	–	–	1/1	1/1
Mr. Qiu, Yu Min ¹	3/3	4/4	2/2	–	N/A	1/1
Dr. Liu, Weidong ²	1/1	1/1	1/1	–	1/1	N/A
Independent Non-executive Directors						
Ms. Hu, Lan	4/4	5/5	–	1/1	–	1/1
Mr. Chang, Hong-Jen	4/4	5/5	3/3	–	–	0/1
Dr. Wang, De Qian	4/4	–	3/3	1/1	1/1	1/1

Notes:

1. Mr. Qiu, Yu Min resigned as non-executive Director on 12 August 2023.
2. Dr. Liu, Weidong appointed as non-executive Director on 12 August 2023.

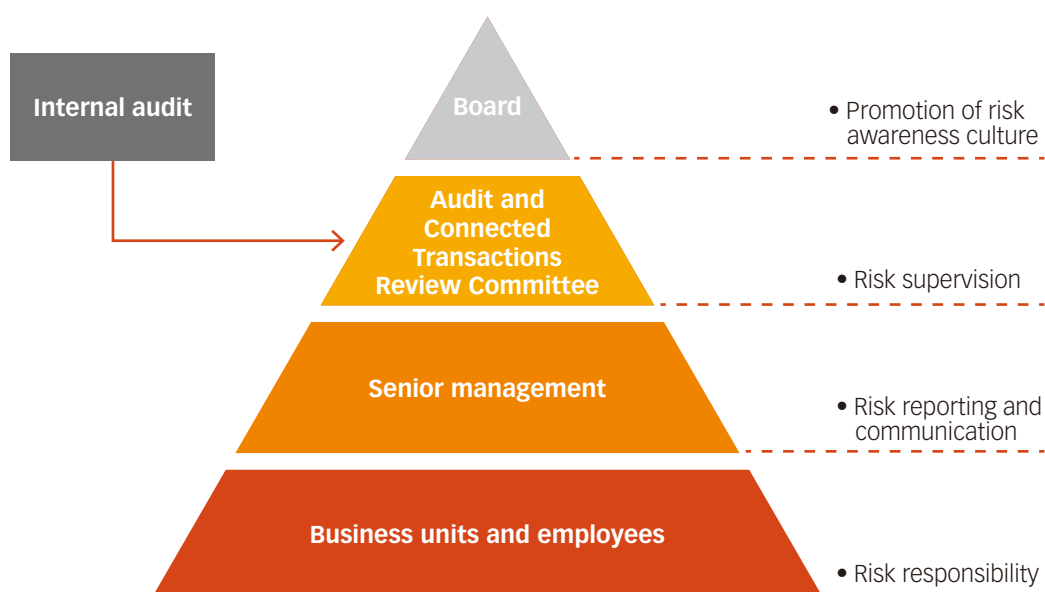
During the year ended 31 December 2023, at least one independent meeting was held between the chairperson and the independent non-executive Directors without the presence of other Directors.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

The Company has established a risk governance structure to identify, evaluate, resolve, monitor and communicate key risks, such as strategic risk, financial risk, operational risk and compliance risk, so as to ensure the effectiveness of its internal risk control.

Based on such risk governance structure, the Company's risk management and internal control systems as well as the roles and responsibilities of various stakeholders are as follows:



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

The Audit and Connected Transactions Review Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has published internal audit standard to comply the code of professional ethics and company regulations. The Company has established an internal audit function to examine key issues in relation to the accounting practices and operations management and provided its findings and recommendations for improvement to the Audit and Connected Transactions Review Committee. In addition, the internal audit manager holds regular meetings with the management team of the Company to enhance the management and risk control in operation processes.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales, intellectual property, production safety, financial reporting, authorization management, information security and information technology.

RISK MANAGEMENT AND INTERNAL CONTROLS

(cont'd)

The Company conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance, quality control and information security. For a summary of certain principal risks and uncertainties faced by the Group, please see the paragraph headed "Directors' Report – Business Review – Principal Risks and Uncertainties" on pages 56 to 57 of this annual report. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by relevant division/department. The Company is committed to mitigating and assessing its risk management to ensure well risk management and governance.

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

The management has confirmed to the Board and the Audit and Connected Transactions Review Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2023, and has conducted in-depth communication with the Board and the Audit and Connected Transactions Review Committee on the framework and priorities of the Company's corporate risk management and internal control for 2024.

The Board, as supported by the Audit and Connected Transactions Review Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2023, and considered that such systems are effective and adequate. The annual review also covered the financial reporting, internal audit function, as well as staff qualifications, experiences and relevant resources. As of the date of this report, there are no material internal control findings.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policies, signed confidentiality agreements with employees and established information disclosure approval procedures, which together provide a general guide and management principles to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the independent auditor's report on pages 77 to 82 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to PricewaterhouseCoopers, the external auditor of the Company, and other PricewaterhouseCoopers network firms, for the year ended 31 December 2023 is set out below:

Service Category	Fees Paid/Payable (RMB'000)
Audit services	3,297
Non-audit services (including tax and other advisory services)	36
Total	3,333

COMPANY SECRETARY

Mr. Chen, Yifan, senior director of the legal compliance division of the Group, and Mr. Lui, Wing Yat Christopher, senior manager of Tricor Services Limited, an external service provider, have been appointed as the Company's joint company secretaries.

Mr. Chen, Yifan has been designated as the primary contact person at the Company which would work and communicate with Mr. Lui, Wing Yat Christopher on the Company's corporate governance and secretarial and administrative matters.

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

For the year ended 31 December 2023, Mr. Chen, Yifan and Mr. Lui, Wing Yat Christopher have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels, such as general meetings, analyst presentations, disclosure pursuant to the Listing Rules, corporate website and social media platforms.

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

Convening an Extraordinary General Meeting

Extraordinary general meetings may be convened by the Board on requisition of shareholder(s) of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings or by such shareholder(s) who made the requisition (as the case may be) pursuant to sections 566 and 568 respectively of the Companies Ordinance and Article 62 of the Amended and Restated Articles of Association.

Shareholders should follow the requirements and procedures as set out in the Companies Ordinance and the Amended and Restated Articles of Association for convening a general meeting.

SHAREHOLDERS' RIGHTS *(cont'd)*

Putting Forward Proposals at General Meetings

Pursuant to section 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders; or at least 50 shareholders who have a right to vote at the relevant annual general meeting, may request to circulate a resolution to be moved at an annual general meeting.

Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for circulating a resolution for annual general meeting.

Putting Forward Enquiries to the Board

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

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. 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.

During the year ended 31 December 2023 and up to the date of this report, the Company has held an annual general meeting on 27 June 2023.

The forthcoming annual general meeting will be held in June 2024. The notice of annual general meeting will be sent to shareholders in accordance with the requirements set out in the Listing Rules and the Amended and Restated Articles of Association.

Contact Details

The Company maintains a website (www.totbiopharm.com.cn) where information of the Group's businesses and projects, key corporate governance policies and announcements, financial reports and other information are available for public access. Shareholders and investors may send their enquiries or requests as mentioned above to the following:

Address: The Secretariat
120 Changyang Street
Suzhou Industrial Park
PRC
Email: ir@totbiopharm.com
Telephone: 86-512-6296-5286 Ext.6727

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

Shareholders' Communication Policy

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

With respect to dividend policy, the Group currently intends to retain all available funds and earnings, if any, to fund the development of its business and it does not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be made at the discretion of the Directors and may be based on a number of factors, including the Group's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Directors may deem relevant.

Amendments to Constitutional Documents

During the year under review, the Company has not made any changes to its Amended and Restated Articles of Association. An up-to-date version of the Company's Amended and Restated Articles of Association is also available on the Company's website and the Stock Exchange's website.

DIRECTORS' REPORT

The Directors are pleased to present this Directors' Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

Unless otherwise stated, all references below to other sections, reports or notes in this annual report form part of this report.

GENERAL INFORMATION

The Company was incorporated in Hong Kong on 4 December 2009 with limited liability. The Company's Shares were listed on the Main Board of the Stock Exchange on 8 November 2019.

PRINCIPAL ACTIVITIES

The Company is a clinical-stage biopharmaceutical company dedicated to developing and commercializing innovative oncology drugs and therapies. With rich practical experience and a mature technology platform and quality system, we provide one-stop CDMO solutions for drug development and production.

The Group has a pipeline of oncology drug candidates, which include monoclonal antibodies (mAbs) and antibody-drug conjugates (ADCs). Since the Company's inception in 2009, it has built and established a fully integrated in-house platform of discovery, process development, quality management, pre-clinical and clinical development, as well as commercial-scale manufacturing facilities and proven sales and marketing capabilities, which provides flexibility and scalability for business of the Group to expand along the innovative drug industry value chain.

RESULTS

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of comprehensive loss on page 83 of this annual report.

BUSINESS REVIEW

A fair review of the business of the Group as required by section 388(2) of and Schedule 5 to the Companies Ordinance, including an indication of likely future developments of the Group's business and an analysis of the Group's performance using financial key performance indicators during the year ended 31 December 2023 are provided in the sections headed "CEO statement" on pages 3 to 5 of this annual report and "Management discussion and analysis" on pages 6 to 29 of this annual report.

(a) Principal risks and uncertainties

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

- its financial position, in particular its net losses;
- its ability to develop and commercialize its drug candidates, and the commercial sales performance of marketed products;
- material aspects of the research and development and commercialization of its pharmaceutical products being heavily regulated;
- lengthy, time-consuming and inherently unpredictable regulatory approval processes of various regulatory authorities for its drug candidates;

BUSINESS REVIEW (cont'd)

(a) Principal risks and uncertainties (cont'd)

- competition in the pharmaceutical industry and in the oncology drugs market;
- its ability to obtain and maintain patent protection for its drug candidates; and
- its ability to attract, train, retain and motivate qualified and highly skilled personnel.

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

The Company believes that risk management is essential to the Group's effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. The Audit and Connected Transactions Review Committee and the Company's general management division assist the Board in monitoring material risk exposure arising internally and externally from the Group's business, including operational risks, financial risks, regulatory risks, etc., and proactively setting up appropriate risk management and internal control mechanisms to rectify any deficiencies. The Group's financial risk management objectives and policies are set out in Note 3 to the consolidated financial statements.

(b) Environmental Policies and Performance

The Group recognizes the importance of proper adoption of environmental policies which is essential to the attainability of corporate growth. The management has formulated comprehensive standards for environment, health and safety for the Group based on applicable laws, regulations and standards. The Company's environmental safety and health division is responsible for monitoring the compliance with these standards and reviewing the effectiveness of these standards. In addition, to strengthen its environmental, social, and governance work, to further improve the Company's corporate governance structure and to ensure the Company's sustainable development, among others, the Company established the Strategy and ESG Committee on 23 December 2021. The Group will continue to improve its fulfilment of social responsibility.

Please refer to the section headed "Environmental, Social and Governance Report" prepared in accordance with Appendix C2 to the Listing Rules from pages 164 to 252 of this annual report for detailed discussion on the Company's environmental policies and performance.

(c) Compliance with the Relevant Laws and Regulations

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

BUSINESS REVIEW *(cont'd)*

(d) Employee and Emolument Policies

In compliance with Rule 3.25 of the Listing Rules and the CG Code, the Company has established the Remuneration Committee to formulate remuneration policies. The Remuneration Committee is responsible for developing policies and structure for remuneration of all Directors, senior management and employees including salaries, incentive schemes and other share option schemes, and making recommendation to the Board. The Group believes its success depends upon the provision of consistent, quality and reliable services by its employees and hence its ability to attract, retain and motivate qualified personnel is crucial. To attract high-quality employees, the Group offered competitive compensation packages. The remuneration of the employees of the Group generally includes salaries, bonuses, social security contributions and other welfare payments. In accordance with applicable PRC laws, the Group has made contributions to housing provident funds and contributions to social security insurance funds, including basic pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance for its employees. In accordance with applicable Taiwan laws, the Group has made contributions to social security insurance funds. Remuneration of each employee varies by functions and titles and their own academic backgrounds, experience, skills, technical knowledge and performance.

In addition, the Group established the Pre-IPO Share Option Scheme in 2013 and has granted options to Directors, senior management and key employees for the primary purpose of providing incentives and reward to its employees. The Group further adopted the Restricted Share Award Scheme in 2020. Please refer to the paragraphs headed "Pre-IPO Share Option Scheme" and "Restricted Share Award Scheme" in this report for further details.

The remuneration of all Directors are determined by the Board having regard to the recommendation of the Remuneration Committee and with reference to the Director's contributions, experience and relevant duties and responsibilities within the Company. None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

(e) Major Customers and Suppliers

Major Customers

During the year ended 31 December 2023, the Group derived its revenue primarily from sales revenue, revenue for providing CDMO/CMO services, etc.. Equipped with full industry value chain capabilities, the Group adopts an open platform business model and collaborates with third party business partners at different stages of the industry value chain. The full industry value chain capabilities make the Group's open platform attractive to an industry player whose capability in certain parts of the industry value chain is complementary to the Group's.

For the year ended 31 December 2023, revenue from the five largest customers of the Group accounted for less than 30% of the Group's total revenue.

BUSINESS REVIEW (cont'd)

(e) Major Customers and Suppliers (cont'd)

Major Suppliers and Service Providers

Suppliers of the Group primarily include suppliers of raw materials, CROs, suppliers of machinery and equipment, suppliers of reference drugs, and construction service providers. The Group procures raw materials based on its estimation of the production needs for its research and development activities and commercial production. The Group obtains raw materials for its manufacturing activities from multiple reputable suppliers who the Group believes have sufficient capacity to meet our demands. The Group selects suppliers of raw materials based on a number of factors, including their product quality, price, delivery time and manners and market reputation, and follow the procedures and standards required by law or industry practice. The Group has also established internal procedure and policies to examine the quality of the products of the suppliers before entering into any contract with them. The Group typically orders raw materials on a purchase order basis and does not enter into long-term dedicated capacity or minimum supply arrangements.

In line with industry practice and to supplement the in-house capabilities of the Group, the Group has also engaged certain CROs to conduct preclinical and clinical research. It selects CROs based on various factors, including their quality, reputation and research experience. The Group generally enters into master contract services agreements with the CROs it engages, which include a statement of work specifying the terms of services provided by the CROs, and pays these CROs fixed project-based fees. Under such agreements, all intellectual property rights arising from the performance of the services, including clinical trial data, will be owned by the Group. The Group also requires the CROs to conduct clinical trials in accordance with international good clinical practice (GCP) standards. Typically, the Group requires the CRO personnel handling our clinical trials to hold GCP certification or have GCP training experience.

For the year ended 31 December 2023, purchase amount from the five largest suppliers of the Group accounted for 57% of its total purchase costs and the largest supplier of the Group accounted for 40% of its total purchase costs. At no time during the year ended 31 December 2023 did the Directors, their respective close associates or any shareholder of the Company (who, to the knowledge of the Directors, owned more than 5% of the issued capital of the Company) have any interest in any of the Group's top five suppliers.

(f) Important Events after Reporting Period

Save as otherwise disclosed in this annual report, the Company did not have any important events that should be brought to the attention of the Shareholders from 1 January 2024 and up to the date of this report.

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets and liabilities of the Group for the last five financial years is set out in the section headed "Five-year financial summary" on page 159 of this annual report. This summary does not form part of the audited consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 35 to the consolidated financial statements.

The following is the list of directors of the Company's subsidiaries during the year ended 31 December 2023 and up to the date of this report:

Dr. Liu, Jun
Mr. Fu, Shan
Ms. Yeh-Huang, Chun-Ying⁽¹⁾
Mr. Qiu, Yu Min⁽²⁾
Dr. Liu, Weidong⁽²⁾
Mr. Wu, Chih-Yuan⁽¹⁾

Note(s):

- (1) In March 2023, Ms. Yeh-Huang, Chun-Ying resigned as director of TOT BIOPHARM Company Limited (東源國際醫藥股份有限公司) with effect from April 2023 and was succeeded by Mr. Wu, Chih-Yuan (吳志遠先生). Ms. Yeh-Huang remains a director of TOT Suzhou as at the date of this report.
- (2) In August 2023, Mr. Qiu, Yu Min resigned as director of TOT Suzhou with effect from December 2023 and was succeeded by Dr. Liu, Weidong.

DIVIDENDS

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2023.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2023 are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Company during the year ended 31 December 2023 are set out in Note 24 to the consolidated financial statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2023.

DEBENTURE ISSUED

The Group did not issue any debenture during the year ended 31 December 2023.

RESERVES

Details of movement in the reserves of the Group and the Company during the year ended 31 December 2023 are set out in the consolidated statement of changes in equity on page 86 of this annual report and in Notes 25 and 36(a) to the consolidated financial statements.

The Company did not have distributable reserves as at 31 December 2023 calculated under Part 6 of the Companies Ordinance as it has accumulated losses.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2023 are set out in the section headed "Management discussion and analysis" in this annual report and Note 28 to the consolidated financial statements.

DONATIONS

During the year ended 31 December 2023, the Group made donations of approximately RMB90 thousand.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during 2023 or subsisted at the end of 2023 except for the Pre-IPO Share Option Scheme and the Restricted Share Award Scheme, further details of which are set out in the paragraphs headed "Pre-IPO Share Option Scheme" and "Restricted Share Award Scheme" in this report.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 166 of the Company's Amended and Restated Articles of Association, subject to the provisions of the Companies Ordinance, every Director, company secretary or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto.

The Company has purchased directors, company secretary and officers' liabilities insurance on behalf of its directors, Mr. Chen, Yifan and Mr. Lui, Wing Yat Christopher (being current joint company secretaries) and its officers.

DIRECTORS

The following is the list of Directors during the year ended 31 December 2023 and up to the date of this report (unless otherwise stated).

Executive Director

Dr. Liu, Jun (*Chief Executive Officer*)

Non-executive Directors

Mr. Fu, Shan (*Chairperson of the Board*)

Ms. Yeh-Huang, Chun-Ying
(*Vice Chairperson of the Board*)⁽¹⁾

Mr. Qiu, Yu Min⁽²⁾

Dr. Liu, Weidong⁽²⁾

Independent Non-executive Directors

Ms. Hu, Lan

Mr. Chang, Hong-Jen

Dr. Wang, De Qian

Notes:

- (1) With effect from 1 January 2023, Ms. Yeh-Huang, Chun-Ying was re-designated from an executive Director to a non-executive Director. She also resigned from her position as a senior manager of TOT Suzhou, and her position as the general manager of TOT BIOPHARM Company Limited (東源國際醫藥股份有限公司), a wholly-owned subsidiary of the Company, on 1 January 2023. Ms. Yeh-Huang is entitled to an annual director's fee of USD80,000 as a non-executive Director with effect from 1 January 2023 under her new letter of appointment. See the Company's announcement dated 30 December 2022 titled "Re-designation of Executive Director to Non-executive Director" for details.
- (2) With effect from 12 August 2023, Mr. Qiu, Yu Min has resigned as a non-executive Director and Dr. Liu, Weidong has been appointed as a non-executive Director. See the Company's announcement dated 11 August 2023 titled "Change of Directors and Change of Composition of Board Committees" for details.

Except as disclosed above, no Director had resigned from the office or refused to stand for re-election to the office during the year ended 31 December 2023 and up to the date of this report.

Dr. Liu, Weidong, who was appointed by the Board as a non-executive Director under Article 110 of the Amended and Restated Articles of Association, will hold office until the forthcoming AGM and, being eligible, will offer himself for re-election. Separately, in accordance with Article 111 of the Amended and Restated Articles of Association, three Directors (other than Dr. Liu, Weidong) will retire from office by rotation at the forthcoming AGM.

Details of the Directors who will retire from office by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM will be set out in the circular to the Shareholders.

(a) Biographies of the Directors and Senior Management

Brief biographies of the current Directors are set out in the section headed "Biographies of directors and senior management" on pages 30 to 35 of this annual report.

Except as noted in the biographies, none of the Directors have held any other directorships in any listed public companies in the last three years. Further, except as disclosed in the biographies, none of the Directors is connected with any Director, senior management, substantial shareholder or controlling shareholder of the Company and, except as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or Any of Its Associated Corporations" in this report, none of them has any interests in the shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed in this annual report, there is no information that needs to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules. Save as disclosed in this annual report, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS (cont'd)

(b) Directors' Service Contracts and Letters of Appointment

Each of the executive Director and non-executive Directors has entered into a service contract or has signed a letter of appointment with the Company, while each of the independent non-executive Directors has signed a letter of appointment with the Company. The term of service of each of Dr. Liu, Jun, Mr. Fu, Shan, Ms. Yeh-Huang, Chun-Ying, Ms. Hu, Lan and Mr. Chang, Hong-Jen has been renewed for a fixed term of three years commencing from 12 March 2022. Dr. Wang, De Qian has signed a letter of appointment with the Company for a term of three years commencing from 12 March 2022. Dr. Liu, Weidong has signed a letter of appointment with the Company for a term of three years commencing from 12 August 2023.

The above appointments are always subject to the provisions of retirement and rotation of directors under the Amended and Restated Articles of Association of the Company. None of the Directors proposed for re-election at the forthcoming AGM has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

(c) Independence of Independent Non-executive Directors

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

(d) Directors' Interests in Competing Business

During the year ended 31 December 2023, none of our Directors had any interest in a business, apart from the business of the Group, which competed or was likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

(e) Directors' Interests in Transactions, Arrangements and Contracts of Significance

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries has been a party and in which a Director or an entity connected with a Director is or was materially interested, whether directly or indirectly, subsisted at the end of the year ended 31 December 2023 or at any time during the year.

(f) Directors' Rights to Acquire Shares or Debentures

Save as disclosed in this annual report, at no time during the year ended 31 December 2023 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company, or had exercised any such right.

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

As at 31 December 2023, the interests or short positions of the Directors or chief executives of the Company in any of the Shares, underlying Shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in shares or underlying shares of the Company

Name of Director or chief executive	Nature of interest	Number of Shares interested ⁽¹⁾	Approximate percentage of interest in the Company ⁽²⁾
Dr. Liu, Jun	Interest through equity derivatives ⁽³⁾	1,100,000 (L)	0.14%
	Beneficiary of a trust ⁽⁴⁾	5,699,999 (L)	0.74%
Ms. Yeh-Huang, Chun-Ying	Beneficial owner	5,465,700 (L)	0.71%
	Interest through equity derivatives ⁽³⁾	1,162,500 (L)	0.15%
	Beneficiary of a trust ⁽⁴⁾	2,897,383 (L)	0.37%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) The calculation is based on the total number of 772,787,887 Shares in issue as at 31 December 2023 and rounded off to two decimal places.
- (3) These interests represent the interests in Shares underlying the Pre-IPO Share Options (being unlisted physically-settled equity derivatives) held by Dr. Liu, Jun and Ms. Yeh-Huang, Chun-Ying, respectively.
- (4) These interests represent the Restricted Award Shares held by Teeroy Limited on trust for Dr. Liu, Jun and Ms. Yeh-Huang, Chun-Ying, respectively.

Save as disclosed above, as at 31 December 2023, so far as it was known to the Directors or chief executives of the Company, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2023, so far as it was known to the Directors or chief executives of the Company, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company as disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Interests in shares or underlying shares of the Company

Name of Shareholder	Nature of interest	Number of Shares interested ⁽¹⁾	Approximate percentage of interest in the Company ⁽²⁾
Center Laboratories, Inc.	Beneficial owner	213,311,700 (L)	27.60%
Mr. Pang Kee Chan Hebert ⁽³⁾	Interest in controlled corporation	49,136,800 (L)	6.36%
Advantech Capital Partners II Limited ⁽³⁾	Interest in controlled corporation	49,136,800 (L)	6.36%
Advantech Capital II L.P. ⁽³⁾	Interest in controlled corporation	49,136,800 (L)	6.36%
Advantech Capital II Master Investment Limited ⁽³⁾	Interest in controlled corporation	49,136,800 (L)	6.36%
Advantech Capital Investment V Limited ⁽³⁾	Beneficial owner	49,136,800 (L)	6.36%
Chengwei Evergreen Management, LLC ⁽⁴⁾	Interest in controlled corporation	56,573,500 (L)	7.32%
Chengwei Evergreen Capital, L.P. ⁽⁴⁾	Beneficial owner	56,573,500 (L)	7.32%
Vivo Capital LLC ⁽⁵⁾	Interest in controlled corporation	103,245,000 (L)	13.36%
Vivo Capital VIII, LLC ⁽⁵⁾	Interest in controlled corporation	103,245,000 (L)	13.36%
Vivo Capital Fund VIII, L.P. ⁽⁵⁾	Beneficial owner	90,718,100 (L)	11.74%
Suzhou Vivo Management Consulting Partnership (Limited Partnership) ⁽⁶⁾	Interest in controlled corporation	116,250,000 (L)	15.04%
Vivo (Suzhou) Health Industry Investment Fund (Limited Partnership) ⁽⁶⁾	Beneficial owner	116,250,000 (L)	15.04%
Tricor Trust (Hong Kong) Limited ⁽⁷⁾	Trustee	38,993,566 (L)	5.05%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (cont'd)

Interests in shares or underlying shares of the Company (cont'd)

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) The calculation is based on the total number of 772,787,887 Shares in issue as at 31 December 2023 and rounded off to two decimal places.
- (3) Advantech Capital Investment V Limited, an exempted company with limited liability incorporated under the laws of Cayman Islands, directly held 49,136,800 Shares. Advantech Capital Investment V Limited is wholly owned by Advantech Capital II Master Investment Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands, which is in turn wholly owned by Advantech Capital II L.P., a private equity fund incorporated under the laws of the Cayman Islands. The general partner of Advantech Capital II L.P. is Advantech Capital Partners II Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands. Advantech Capital Partners II Limited is wholly owned by Mr. Pang Kee Chan Hebert. For the purpose of the SFO, Advantech Capital II Master Investment Limited, Advantech Capital II L.P., Advantech Capital Partners II Limited and Mr. Pang Kee Chan Hebert are deemed to have an interest in the Shares held by Advantech Capital Investment V Limited.
- (4) Chengwei Evergreen Capital, L.P. directly held 56,573,500 Shares. Chengwei Evergreen Capital, L.P. is a venture capital fund incorporated under the laws of the Cayman Islands. The general partner of Chengwei Evergreen Capital, L.P. is Chengwei Evergreen Management, LLC, a limited liability company incorporated under the laws of the Cayman Islands. For the purpose of the SFO, Chengwei Evergreen Management, LLC is deemed to have an interest in the Shares held by Chengwei Evergreen Capital, L.P..
- (5) Vivo Capital Fund VIII, L.P. directly held 90,718,100 Shares, and Vivo Capital Surplus Fund VIII, L.P. directly held 12,526,900 Shares. Both Vivo Capital Fund VIII, L.P. and Vivo Capital Surplus Fund VIII, L.P. (referred to collectively as "**Vivo Capital**") are limited partnerships organized under the laws of the State of Delaware of the United States. The general partner of Vivo Capital is Vivo Capital VIII, LLC, which is registered in the State of Delaware of the United States. Vivo Capital LLC, registered in the State of California of the United States, serves as the management company of Vivo Capital and has a form of advisory agreement with Vivo Capital VIII, LLC. For the purpose of the SFO, Vivo Capital VIII, LLC and Vivo Capital LLC are deemed to have an interest in the Shares held by Vivo Capital.
- (6) Vivo (Suzhou) Health Industry Investment Fund (Limited Partnership) directly held 116,250,000 Shares. Vivo (Suzhou) Health Industry Investment Fund (Limited Partnership) is a limited partnership organized under the laws of the PRC. The general partner of Vivo (Suzhou) Health Industry Investment Fund (Limited Partnership) is Suzhou Vivo Management Consulting Partnership (Limited Partnership), which is a limited partnership organized under the laws of the PRC. For the purpose of the SFO, Suzhou Vivo Management Consulting Partnership (Limited Partnership) is deemed to have an interest in the Shares held by Vivo (Suzhou) Health Industry Investment Fund (Limited Partnership).
- (7) Tricor Trust (Hong Kong) Limited directly held 38,993,566 Shares as trustee of a trust established by the trust deed dated 29 May 2020 entered into with the Company in connection with the Restricted Share Award Scheme for the benefit of participants who are not connected persons of the Company.

Save as disclosed above, as at 31 December 2023, no person, other than the Directors or chief executives of the Company whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or Any of its Associated Corporations" in this report, had any interests or short positions in the Shares or underlying Shares as disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

PRE-IPO SHARE OPTION SCHEME

On 20 February 2013, the Company adopted the Pre-IPO Share Option Scheme with an aim to attract and retain talent necessary for the Group's development, and to incentivize the Group's employees and enhance their cohesion and productivity, thereby creating value for the Company and its Shareholders. The Pre-IPO Share Option Scheme was subsequently amended on 11 December 2017, 20 December 2018, 12 March 2019, 16 April 2019 and 22 July 2019. No further Pre-IPO Share Options may be granted on or after the Listing Date.

The Pre-IPO Share Option Scheme is not subject to the provisions of Chapter 17 of the Listing Rules. For details of the Pre-IPO Share Option Scheme, please refer to pages V-36 to V-47 of the Prospectus and Note 26 to the consolidated financial statements.

Details of the movements of the Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2023 are as follows:

Date of grant	Date of vesting	Exercise period	Exercise price (per Share) ⁽¹⁾	Number of Shares underlying the Pre-IPO Share Options					Outstanding as at 31 December 2023
				Outstanding as at 31 December 2022	Granted (during the year ended 31 December 2023)	Exercised	Cancelled	Lapsed	
1. Dr. Liu, Jun (Director)									
25 December 2017	Vested in four equal installments on 1 January 2019, 2020, 2021 and 2022	From the date of vesting till 24 December 2027	Approximately US\$0.286	1,000,000	–	–	–	–	1,000,000
21 January 2019	To be vested in five equal installments at the fulfillment of certain R&D targets and the second, third, fourth and fifth anniversaries thereof ⁽²⁾	From the date of vesting till 20 January 2029	Approximately US\$0.286	100,000	–	–	–	–	100,000
2. Ms. Yeh-Huang, Chun-Ying (Director)									
20 February 2013	All vested	Till 19 February 2023	Approximately US\$0.286	0	–	–	–	–	0
14 December 2017	Vested in four equal installments at each of the first four anniversaries of the date of grant	From the date of vesting till 13 December 2027	Approximately US\$0.286	1,162,500	–	–	–	–	1,162,500

PRE-IPO SHARE OPTION SCHEME (cont'd)

Date of grant	Date of vesting	Exercise period	Exercise price (per Share) ⁽¹⁾	Number of Shares underlying the Pre-IPO Share Options					Outstanding as at 31 December 2023	
				Outstanding as at 31 December 2022	Granted (during the year ended 31 December 2023)	Exercised	Cancelled	Lapsed		
3. Consultants										
Between 10 February 2018 and 30 January 2019	To be vested from one to six years from the date of grant	Generally, from the date of vesting till the date which is one day preceding the tenth anniversary of the date of grant	Approximately US\$0.286	310,000	-	-	-	-	-	310,000
4. Senior management and other employee grantees										
Between 20 February 2013 and 18 June 2019	Either vested or to be vested from one to six years from the date of grant or to be vested from zero to five years from the fulfillment of certain R&D targets ⁽²⁾	Generally, from the date of vesting till the date which is one day preceding the tenth anniversary of the date of grant	Approximately US\$0.286	6,092,600	-	-	-	845,500	-	6,092,600
				8,665,100	-	-	-	845,500	-	7,819,600 ⁽³⁾

Notes:

- (1) The exercise price shall be the highest of the following three values as at the date of the Board's approval of the grant of the respective Pre-IPO Share Options: (i) the net asset value per Share based on the Company's most recent financial statements reviewed by its auditors; (ii) the price per Share in the Company's most recent capital injection; and (iii) US\$1.00 per Share (which was the par value of each Share before the Companies Ordinance came into operation on 3 March 2014 and is taken as reference under the Pre-IPO Share Option Scheme), which is subject to adjustment in the event of subdivision, consolidation or reorganization of the Company's share capital. Subject to certain requirements, the exercise price shall be adjusted in accordance with a specified formula in the event of changes to the share capital of the Company. Prior to the listing of the Company's Shares on the Main Board of the Stock Exchange, the exercise price of all Pre-IPO Share Options were adjusted to approximately US\$0.286 in accordance with the terms of the Pre-IPO Share Option Scheme. For details, please see pages V-37 to V-38 of the Prospectus.
- (2) The fulfillment of the relevant R&D targets occurred on 1 March 2022.
- (3) The number of Shares that may be issued in respect of options granted under the Pre-IPO Share Option Scheme of the Company amounted to 7,819,600 Shares, which represents approximately 1.01% of the number of Shares in issue as at the date of this report.

RESTRICTED SHARE AWARD SCHEME

On 29 May 2020, the Company adopted the Restricted Share Award Scheme with an aim (i) to attract and retain talent necessary for the Group's development, and to incentivize the Group's employees and enhance their cohesion and productivity, thereby creating value for the Company and its Shareholders; and (ii) to compensate participants of the Pre-IPO Share Option Scheme for the dilutive effect of the capitalization issue in connection with the Global Offering on their Pre-IPO Share Options. On the same day, the Company entered into two trust deeds with the respective trustees to constitute the trusts in connection with the Restricted Share Award Scheme for the purpose of the grant of Restricted Award Shares to selected participants (who may be employees (including Directors) of or consultants to the Group) from time to time. The Restricted Share Award Scheme was subsequently amended on 29 July 2020, 23 December 2021 and 1 November 2022. The Restricted Share Award Scheme shall remain valid and effective for a period of ten years from the date of adoption and its remaining life is approximately 6 years.

The aggregate number of Shares which may be allotted and issued to the trustees under the Restricted Share Award Scheme may not exceed 57,000,000 Shares and the maximum number of Shares which may be granted to a selected participant at any time or in aggregate may not exceed 5,700,000 Shares. Pursuant to the terms of the Restricted Share Award Scheme, the maximum number of Shares which may be allotted and issued to the trustees under the Restricted Share Award Scheme during each financial year from 2021 onwards is 14,250,000 Shares. On 23 December 2021, the Board resolved to further amend the terms of the Restricted Share Award Scheme with regards to unvested Shares (i.e. Restricted Award Shares that have failed to vest or have lapsed in respect of a grantee). See the Company's announcement dated 23 December 2021 titled "(1) Grant of Award Shares under Restricted Share Award Scheme (2) Issue of New Shares under General Mandate (3) Amendment to Scheme Rules" for further details of the amendment.

On 29 May 2020, following the adoption of the Restricted Share Award Scheme, the Board resolved to make a grant of 31,413,796 Restricted Award Shares to 84 grantees (including two Directors) under the Restricted Share Award Scheme; subsequently, on 28 December 2020, 30,466,697 Shares were allotted and issued to the trustees. On 23 December 2021, the Board resolved to make a grant to 28 grantees (not including any Director) involving a total of 13,700,000 Restricted Award Shares; subsequently, on 30 December 2021, 13,700,000 Shares were allotted and issued to the relevant trustee. On 1 November 2022, the Board resolved to make a further grant to 8 grantees (including Dr. Liu, Jun, our executive Director) involving a total of 7,558,390 Restricted Award Shares; subsequently, on 30 December 2022, 7,558,390 Shares were allotted and issued to the relevant trustees.

As at 31 December 2023, the remaining number of Shares capable of being allotted and issued to the trustees under the Restricted Share Award Scheme was 5,274,913 Shares, representing approximately 0.68% of the number of Shares in issue as at the date of this report (31 December 2022: 5,274,913 Shares), and the number of unvested Shares held by Tricor Trust (Hong Kong) Limited and capable of being reallocated to other non-connected person grantees under the Restricted Share Award Scheme was 12,141,591 Shares (31 December 2022: 8,474,304 Shares). Accordingly, as at 31 December 2023, the aggregate number of Restricted Award Shares available for grant under the Restricted Share Award Scheme amounted to 17,416,504 Shares (31 December 2022: 13,749,217 Shares).

For further details of the Restricted Share Award Scheme, please refer to pages 8 to 21 of the Company's circular dated 3 August 2020, its announcement dated 23 December 2021 titled "(1) Grant of Award Shares under Restricted Share Award Scheme (2) Issue of New Shares under General Mandate (3) Amendment to Scheme Rules", its announcement dated 1 November 2022 titled "(1) Grant of Award Shares under Restricted Share Award Scheme (2) Connected Transaction Involving Issue of New Shares under Specific Mandate to Trustee Holding Shares on Trust for Connected Persons (3) Issue of New Shares under General Mandate to Trustee Holding Shares on Trust for Non-connected Persons (4) Housekeeping Amendments to Scheme Rules", its circular dated 8 December 2022 titled "Grant of Award Shares under Restricted Share Award Scheme Involving Issue of New Shares under Specific Mandate, Connected Transaction Involving Issue of New Shares to Trustee Holding Shares on Trust for Connected Persons, and Notice of Extraordinary General Meeting" and Note 26 to the consolidated financial statements.

RESTRICTED SHARE AWARD SCHEME (cont'd)

Details of the movements of the Restricted Award Shares granted under the Restricted Share Award Scheme during the year ended 31 December 2023 are as follows:

		Number of Restricted Award Shares							
Trustee	Date of grant	Grant consideration (per Share) ⁽¹⁾⁽²⁾	Outstanding as at 31 December 2022	Granted, and allotted and issued to trustees (during the year ended 31 December 2023)			Outstanding as at 31 December 2023	Earliest vesting date ⁽¹⁾	Expiry date
					Vested	Lapsed			
1. Dr. Liu, Jun (Director)									
Teeroy Limited	29 May 2020	US\$0.28634	623,093	–	–	–	623,093	1 January 2019	24 December 2027
		US\$0.28634	623,093	–	–	–	623,093	1 January 2020	24 December 2027
		US\$0.28634	623,093	–	–	–	623,093	1 January 2021	24 December 2027
		US\$0.28634	623,093	–	–	–	623,093	1 January 2022	24 December 2027
		US\$0.28634	49,848	–	–	–	49,848	The date of the fulfillment of certain R&D targets ⁽³⁾	20 January 2029
		US\$0.28634	49,848	–	–	–	49,848	The second anniversary of the fulfillment of certain R&D targets ⁽³⁾	20 January 2029
		US\$0.28634	49,847	–	–	–	49,847	The third anniversary of the fulfillment of certain R&D targets ⁽³⁾	20 January 2029
		US\$0.28634	49,847	–	–	–	49,847	The fourth anniversary of the fulfillment of certain R&D targets ⁽³⁾	20 January 2029
		US\$0.28634	49,847	–	–	–	49,847	The fifth anniversary of the fulfillment of certain R&D targets ⁽³⁾	20 January 2029
	1 November 2022	HK\$0.6	1,035,436	–	–	–	1,035,436	The later of 31 March 2023 and the date of the fulfillment of certain R&D targets ⁽³⁾	The date of the termination of the Restricted Share Award Scheme (currently expected to be 28 May 2030)
	HK\$0.6	1,183,356	–	–	–	1,183,356	The later of 31 March 2024 and the date of the fulfillment of certain R&D targets ⁽³⁾	The date of the termination of the Restricted Share Award Scheme (currently expected to be 28 May 2030)	
	HK\$0.6	739,598	–	–	–	739,598	The later of 31 March 2025 and the date of the fulfillment of certain R&D targets ⁽³⁾	The date of the termination of the Restricted Share Award Scheme (currently expected to be 28 May 2030)	
			5,699,999	–	–	–	5,699,999		

RESTRICTED SHARE AWARD SCHEME (cont'd)

Number of Restricted Award Shares										
Trustee	Date of grant	Grant consideration (per Share) ⁽¹⁾⁽²⁾	Outstanding as at 31 December 2022	Granted, and allotted and issued to trustees (during the year ended 31 December 2023)				Outstanding as at 31 December 2023	Earliest vesting date ⁽¹⁾	Expiry date
				Vested	Lapsed					
2. Ms. Yeh-Huang, Chun-Ying (Director)										
Teeroy Limited	29 May 2020	US\$0.28634	965,795	–	–	–	965,795	14 December 2019	13 December 2027	
		US\$0.28634	965,794	–	–	–	965,794	14 December 2020	13 December 2027	
		US\$0.28634	965,794	–	–	–	965,794	14 December 2021	13 December 2027	
			2,897,383	–	–	–	2,897,383			
3. Consultants										
Tricor Trust (Hong Kong) Limited	29 May 2020	US\$0.28634	772,634	–	–	–	772,634	Various dates, from the date of grant up to 30 January 2025	Various dates	
			772,634	–	–	–	772,634			
4. Senior management and other employee grantees										
Tricor Trust (Hong Kong) Limited	29 May 2020	US\$0.28634	13,546,628	–	–	2,107,287	11,439,341	Various dates, some of which are linked to the fulfillment of certain R&D targets ⁽³⁾	Various dates	
	23 December 2021	HK\$0.6	11,600,000	–	–	1,560,000	10,040,000	Various dates, which are linked to the fulfillment of certain business and R&D targets	28 May 2030	
	1 November 2022	HK\$0.6	4,600,000	–	–	0	4,600,000	Various dates, which are linked to the fulfillment of a performance target relating to the CDMO/CMO business of the Group	The date of the termination of the Restricted Share Award Scheme (currently expected to be 28 May 2030)	
			29,746,628	–	–	3,667,287	26,079,341			
Total			39,116,644	–	–	3,667,287	35,449,357			

Notes:

- (1) Pursuant to the scheme rules, the grant consideration is to be paid by a selected participant to the Company as a condition to the vesting of his/her Restricted Award Shares on or after the relevant vesting date, but not when the Restricted Award Shares are allotted and issued to the relevant trustee. The exact vesting date in respect of a Restricted Award Share is subject to the receipt of the full amount of the grant consideration by the Company in respect of such Restricted Award Share from the relevant selected participant. There is no restriction on when a selected participant is required to pay the grant consideration to the Company in order to have his/her Restricted Award Shares vested.
- (2) The grant consideration (per Share) for each grant was determined primarily with reference to (i) for the grant made on 29 May 2020, the exercise price of the Pre-IPO Share Options; and (ii) for the grants made on 23 December 2021 and 1 November 2022, a balance being struck between the intended effect of the grant in terms of talent retention and incentivization and the expected profit and loss impact of such grant on the Group.
- (3) The fulfillment of the relevant R&D targets occurred on 1 March 2022.

CONNECTED TRANSACTION

During the year ended 31 December 2023 and up to the date of this report, save as the non-exempt connected transaction disclosed below, the Group had not entered into any connected transaction or continuing connected transaction which has to be disclosed in accordance with Chapter 14A of the Listing Rules.

Connected Transaction

Equity transfers involving Yaozhan and Huayao

On 5 January 2023, Vivo Capital Fund VIII, the Company and Yaozhan entered into the equity transfer agreement, pursuant to which (i) Vivo Capital Fund VIII agreed to transfer the entirety of its fully paid-up registered capital in Yaozhan amounting to USD500,000 to the Company ("**First Equity Transfer**"); and (ii) Yaozhan agreed to transfer part of its partially paid-up registered capital in Huayao amounting to RMB6,000,000 (of which RMB3,000,000 has been paid up) to Vivo Capital Fund VIII ("**Second Equity Transfer**", together with the First Equity Transfer, "**Equity Transfers**"). Upon the completion of the equity transfers contemplated under the equity transfer agreement, Vivo Capital Fund VIII will no longer be a minority shareholder of Yaozhan and will instead become a minority shareholder of Huayao.

Pursuant to the First Equity Transfer, Vivo Capital Fund VIII agreed to transfer the entirety of its fully paid-up registered capital in Yaozhan amounting to USD500,000 to the Company, and the Company agreed to take up such registered capital from Vivo Capital Fund VIII, for a cash consideration of USD500,000 ("**First Consideration**"). The First Consideration was determined after arm's length negotiations between Vivo Capital Fund VIII and the Company with reference to the paid-up amount of the registered capital in Yaozhan being transferred, and is equal to the amount of capital injection by Vivo Capital Fund VIII into Yaozhan. The Company shall pay the First Consideration to Vivo Capital Fund VIII within 10 days after the completion of the required administrative procedures.

Pursuant to the Second Equity Transfer, Yaozhan agreed to transfer part of its partially paid-up registered capital in Huayao amounting to RMB6,000,000 (of which RMB3,000,000 has been paid up) to Vivo Capital Fund VIII, and Vivo Capital Fund VIII agreed to take up such registered capital from Yaozhan, for a cash consideration of RMB3,000,000 ("**Second Consideration**"). The Second Consideration was determined after arm's length negotiations between Yaozhan and Vivo Capital Fund VIII with reference to the paid-up amount of the registered capital in Huayao being transferred. Vivo Capital Fund VIII shall pay the Second Consideration to Yaozhan within 10 days after both the receipt of the First Consideration and the completion of the Second Equity Transfer.

Further details are set out in the announcement of the Company dated 5 January 2023.

Listing Rules Implications

Based on public information, as at the date of the announcement of the Equity Transfers, Vivo Capital Fund VIII, Vivo Capital Surplus Fund VIII, L.P. and Vivo Suzhou Fund, all of which have the same ultimate fund manager (i.e. Vivo Capital LLC), in aggregate held approximately 28.40% of the total issued share capital of the Company. As such, Vivo Capital Fund VIII was a substantial shareholder of the Company, and hence a connected person of the Company pursuant to Rule 14A.07(1) of the Listing Rules. Also, as at the date of the announcement of the Equity Transfers, Vivo Capital Fund VIII held approximately 17.54% equity interest in Yaozhan. As such, Yaozhan was a connected subsidiary and hence connected person of the Company pursuant to Rules 14A.07(5) and 14A.16 of the Listing Rules. Therefore, the Equity Transfers constituted connected transactions of the Company.

CONNECTED TRANSACTION (cont'd)

Connected Transaction (cont'd)

Equity transfers involving Yaozhan and Huayao (cont'd)

Listing Rules Implications (cont'd)

Upon the completion of the Equity Transfers, the Company's percentage shareholding in Yaozhan will increase from approximately 82.46% to 100%, whilst Yaozhan's percentage shareholding in Huayao will decrease from 47% to 35%. As such, the Equity Transfers technically constituted the Group's acquisition of approximately 17.54% equity interest in Yaozhan and disposal of 12% equity interest in Huayao. Aggregating (i) the capital injection by Vivo Capital Fund VIII into Yaozhan and the resultant deemed disposal of approximately 17.54% of the Company's interest in Yaozhan, details of which are set out in the announcement of the Company dated 7 January 2022; (ii) the First Equity Transfer; and (iii) the Second Equity Transfer, the highest applicable percentage ratio (as defined under Rules 14.04(9), 14A.77 and 14A.81 of the Listing Rules) was 0.1% or more but less than 5%. As such, the Equity Transfers are exempt from the circular (including independent financial advice) and shareholders' approval requirements pursuant to Rule 14A.76(2)(a), but are nonetheless subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Related Party Transactions

Details of the related party transactions for the year ended 31 December 2023 are set out in Note 34 to the consolidated financial statements. None of the related party transactions as disclosed in Note 34 to the consolidated financial statements constitute connected transaction or continuing connected transaction of the Group which has to be disclosed in accordance with Chapter 14A of the Listing Rules.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

During the year ended 31 December 2023, the Company has no controlling shareholder.

NON-COMPETITION UNDERTAKINGS

As disclosed in the Prospectus, Centerlab executed a deed of non-competition in favour of the Company on 25 October 2019 (the "**Deed of Non-Competition**"), pursuant to which Centerlab has undertaken to the Group that for the duration of the Non-Compete Period (as defined below), it shall not, and shall use its best endeavors to procure that its respective close associates will not, solely or jointly or in cooperation with other parties, without the prior written consent of the Company: (a) hold and/or be interested in, either directly or indirectly, any shares or securities or interest in any company or other entity whose business primarily involves, directly or indirectly, research and development of innovative antitumor drugs (other than through contracting the Group to develop such drugs in transactions in compliance with the Listing Rules) (the "**Restricted Business**") in the PRC (the "**Restricted Region**"); or (b) otherwise engage or be involved in any Restricted Business in the Restricted Region (the "**Non-Competition Undertakings**").

The undertakings given by Centerlab under the Deed of Non-Competition are effective from the Listing Date and terminate on the earliest of: (i) the date on which Centerlab ceases to be a substantial shareholder of the Company as defined in the Listing Rules; (ii) the date on which the Shares cease to be listed on the Stock Exchange; and (iii) the date on which the Group ceases to engage in the Restricted Businesses (the "**Non-Compete Period**").

Centerlab has confirmed in writing to the Company of its compliance with the Non-Competition Undertakings for the year ended 31 December 2023.

The independent non-executive Directors have reviewed the implementation of the Non-Competition Undertakings and confirmed that, as far as they can ascertain, the Non-Competition Undertakings were complied with by Centerlab for the year ended 31 December 2023.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company, as required to be disclosed under section 543 of the Companies Ordinance, was entered into or existed during the year ended 31 December 2023.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended 31 December 2023. The Directors are also not aware of any material litigation or claims that were pending or threatened against the Group during the year ended 31 December 2023.

USE OF NET PROCEEDS FROM THE SUBSCRIPTIONS

On 31 May 2022, the Company entered into subscription agreements with Centerlab and Vivo Suzhou Fund respectively, pursuant to which Centerlab and Vivo Suzhou Fund conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue to them a total of 150,000,000 shares (the "**Subscription Shares**") at the subscription price of HKD3.15 per share (the "**Subscriptions**").

The subscription agreements and transactions contemplated thereunder were subject to, among other things, the approval by the independent shareholders of the Company at the extraordinary general meeting held on 22 July 2022, and the Listing Committee of the Stock Exchange approving the listing of, and the permission to deal in, the Subscription Shares.

On 29 July 2022, all conditions precedent under each of the subscription agreements were satisfied and completion of the Subscriptions took place in full, pursuant to which (i) Centerlab was allotted and issued 33,750,000 shares; and (ii) Vivo Suzhou Fund was allotted and issued 116,250,000 shares.

The gross proceeds from the Subscriptions were approximately HKD472,500,000 (equivalent to approximately RMB405,788 thousand), and the net proceeds from the Subscriptions after the deduction of the relevant fees and expenses were approximately HKD471,116,000 (equivalent to approximately RMB404,593 thousand) (the "**Net Proceeds**").

Details of the Subscriptions were set out in the announcements of the Company dated 31 May 2022, 22 June 2022, 30 June 2022 and 29 July 2022 and the circular of the Company dated 5 July 2022 (the "**Circular**").

Net Proceeds amounting to RMB197,097 thousand were used in accordance with the proposed applications as set out in the paragraph headed "Letter from the Board – Connected Transactions Involving the Subscriptions – Use of Proceeds" in the Circular. As at 31 December 2023, the unused amount of the Net Proceeds amounted to approximately RMB110,356 thousand, and were being kept by the Group as bank deposits.

USE OF NET PROCEEDS FROM THE SUBSCRIPTIONS (cont'd)

As disclosed in the Company's announcement dated 17 March 2023, based on a comprehensive and prudent analysis and evaluation of the future commercial value and market sales of TAA013, the Group's self-developed HER2 targeted antibody-drug conjugate, and taking into account the Company's strategic planning, the Group decided to terminate the Phase III clinical trial study and development of TAA013 in China (the **"TAA013 Trial Termination"**). Upon the TAA013 Trial Termination, based on the disease progression and drug availability in respect of certain subjects who remain in the trial, and taking into account the judgment of researchers and the wishes of those subjects, the Group would decide on the provision of appropriate treatment options for those subjects (the **"Subsequent Matters"**). Having considered, among other things, the TAA013 Trial Termination, the Subsequent Matters and the development of the Group, the Board resolved on 15 March 2024 to reallocate a portion (being RMB30,000 thousand) of the unused Net Proceeds for the Phase III clinical trial of TAA013 to two other purposes as set out in the table below (the **"Re-allocation"**). The Board confirms that there are no material changes in the nature of the business of the Group and considers that the Re-allocation will not have any material adverse impact on the existing business and operations of the Group and is in the best interests of the Company and its shareholders as a whole. Save as the Re-allocation, the Board confirms that there are no other changes to the use of the unused Net Proceeds.

Purpose	Net Proceeds allocated based on the Circular (RMB'000)	Used during the year ended 31 December 2023 (RMB'000)	Unused amount as at 31 December 2023 before the Re-allocation (RMB'000)	Unused amount as at 31 December 2023 after the Re-allocation (RMB'000)	Expected timing for the full utilization of the unused amount (taking into account the Re-allocation)
For the Phase III clinical trial of TAA013(anti-HER2 ADC, HER2+ advanced breast cancer) and the Subsequent Matters in connection therewith.	63,643	11,970	41,977	11,977	31 December 2024
For capital expenditure on the construction of Global Research and Development Service Center and upgrade of production workshops to expand production capacity and to enhance production efficiency.	141,608	72,489	35,428	50,428	31 December 2025
For the continuous optimization of launched products.	–	–	–	15,000	31 December 2025

USE OF NET PROCEEDS FROM THE SUBSCRIPTIONS (cont'd)

A breakdown of the use of the Net Proceeds during the year ended 31 December 2023 in accordance with the disclosure in the Circular and an expected timeline as at the date of this report for the use of the unused amount (taking into account the Re-allocation) are set forth as follows:

Purpose	Allocated percentage based on the Circular	Net Proceeds allocated based on the Circular (RMB'000)	Used during the year ended 31 December 2023 (RMB'000)	Unused amount as at 31 December 2023 before the Re-allocation (RMB'000)	Unused amount as at 31 December 2023 after the Re-allocation (RMB'000)	Expected timing for the full utilization of the unused amount (taking into account the Re-allocation)
(1) For capital expenditure on the construction of Global Research and Development Service Center and upgrade of production workshops to expand production capacity and to enhance production efficiency.	35%	141,608	72,489	35,428	50,428	31 December 2025
(2) For the ongoing development of products, of which:	25%:	101,148	27,019	63,607	48,607	
(a) For the Phase III clinical trial of TAA013(anti-HER2 ADC, HER2+ advanced breast cancer) and the Subsequent Matters in connection therewith;	(a) 15.73%	63,643	11,970	41,977	11,977	31 December 2024
(b) To fund ongoing and planned pre-clinical and clinical trials of TAE020 (new target ADC, acute myeloid leukemia) and TAC020 (new target mAb/recombinant protein, various solid tumors);	(b) 8.02%	32,448	10,167	21,630	21,630	31 December 2025
(c) To fund clinical trials, registration and filing for approval, as well as post-registration research and development of other drug candidates in the pipeline; and	(c) 1.25%	5,057	4,882	–	–	–
(d) For the continuous optimization of launched products.	–	–	–	–	15,000	31 December 2025
(3) For the ongoing development and support of CDMO and CMO business.	20%	80,919	68,448	–	–	–
(4) For commercial production, marketing and sales activities of three products with marketing approvals obtained, namely TAB008, TOZ309 and TOM218.	10%	40,459	3	–	–	–
(5) For working capital and other general corporate purposes.	10%	40,459	29,138	11,321	11,321	31 December 2024
Total⁽¹⁾	100%	404,593	197,097	110,356	110,356	

USE OF NET PROCEEDS FROM THE SUBSCRIPTIONS *(cont'd)*

Note:

- (1) Amounts and percentage figures included in this table have been subject to rounding. Accordingly, figures shown as totals in this table may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this annual report, the Group does not have other plans for material investments and capital assets.

CORPORATE GOVERNANCE

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

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held in June 2024. A notice convening the AGM and setting out the arrangements in relation to the closure of register of members will be published in due course in accordance with the requirements of the Listing Rules.

REVIEW BY AUDIT AND CONNECTED TRANSACTIONS REVIEW COMMITTEE

The Audit and Connected Transactions Review Committee has reviewed the financial reporting processes, risk management and internal control systems of the Group and the consolidated financial statements of the Group for the year ended 31 December 2023, and is of the opinion that these statements have complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosure has been made.

AUDITOR

The consolidated financial statements of the Group have been audited by PricewaterhouseCoopers, Certified Public Accountants, who will retire and, being eligible, offer themselves for re-appointment at the AGM. A resolution to re-appoint PricewaterhouseCoopers and to authorise the Directors to fix its remuneration will be proposed at the AGM.

By the order of the Board

Dr. Liu, Jun

Chief Executive Officer and Executive Director

Hong Kong

15 March 2024

INDEPENDENT AUDITOR'S REPORT

To the Members of TOT BIOPHARM International Company Limited

(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of TOT BIOPHARM International Company Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 83 to 158, comprise:

- the consolidated balance sheet as at 31 December 2023;
- the consolidated statement of comprehensive loss for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (cont'd)

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition: sales of goods
- Assessment of impairment indicators of property, plant and equipment

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition: sales of goods</p> <p>Refer to note 5 (Segment and revenue information) to the consolidated financial statements.</p> <p>For the year ended 31 December 2023, the Group recognised RMB630,207,000 of revenue from sales of goods, 81% of the total revenue.</p> <p>Revenue from sales of goods is recognised at a point in time, and the performance obligations are satisfied when the control of products are transferred to the customers.</p> <p>We considered the recognition of revenue from sales of goods a key audit matter due to the huge volume of sales transactions, and thus significant audit time and resources were devoted in this area, in particular relating to the occurrence of such transactions.</p>	<p>Our procedures performed in relation to revenue recognition of sales of goods mainly include the following:</p> <ul style="list-style-type: none"> • Understood, evaluated and validated management's key controls in respect of the Group's process of recognition of sales transactions, including contract approval, recording of sales based on contract terms, and customers' goods receipt notes; • Tested the revenue for selected samples by examination of the relevant supporting documents, including sales orders, invoices, goods delivery notes and customer's receipt notes to revenue recorded; • Confirmed selected trade receivables balances as at the balance sheet date on a sample basis by considering the amount, nature and characteristics of the customers; and • Performed cut-off test to assess whether revenue was recognised in the correct reporting periods. <p>Based on our audit procedures performed, we found the Group's revenue recognition in relation to sales of goods was supported by the relevant evidence that we have gathered.</p>

KEY AUDIT MATTERS (cont'd)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Assessment of impairment of property, plant and equipment</p> <p>Refer to note 4 (Critical accounting estimates and judgements) and 14 (Property, plant and equipment) to the consolidated financial statements.</p> <p>As at 31 December 2023, the Group's property, plant and equipment amounted to approximately RMB695,804,000, 49% of total assets.</p> <p>The Group is a biotechnology company which engaged in the research and development ("R&D") activity. With the launch of drugs, the Group has realized the revenue of sales of goods, and also developed the Contract Development and Manufacturing Organization ("CDMO")/ Contract Manufacture Organization ("CMO") business. During the year ended 31 December 2023, the Group had a continued operating loss. As the property, plant and equipment are mainly used for production of launched drugs, CDMO/CMO services and R&D activities, the failure of meeting the Group's expected business plans may be an impairment indicator of property, plant and equipment.</p> <p>Management analysed and identified the indication of impairment, and conducted impairment assessment by comparing the recoverable amount with carrying amount of those property, plant and equipment with indication of impairment. The recoverable amount shall be determined based on the higher of the net amount of the fair value of the asset less cost of disposal and the present value of the estimated future cash flow of the asset.</p> <p>We considered the assessment of impairment of property, plant and equipment a key audit matter because it involved critical management judgments.</p>	<p>Our procedures performed in relation to management's assessment of impairment indicators of property, plant and equipment mainly include the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of the management's internal control and assessment process of the impairment indicators of property, plant and equipment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as the management estimates involved in determining whether an impairment indicator existed at year end; • Obtained the business plans of the production of launched drugs, CDMO/CMO services and R&D activities prepared by the management and understood the key basis in preparing the business plans; • Inquired management and inspected relevant supporting documents to understand the actual operational results to assess whether there was any failure of meeting the business plans; • Discussed with management to understand the technological, market, economic and legal environment and corroborated with supporting evidence to assess whether there were any significant changes with an adverse effect on the Group; • Performed physical observation of property, plant and equipment for selected samples to evaluate the condition of property, plant and equipment to determine whether there were any damaged or idle assets; • For those idle assets with indication of impairment, examined the management's impairment test model by assessing the reasonableness of the valuation methodology and key judgements adopted by the management in impairment assessment. <p>Based on the audit procedures performed, we found the key judgements used by management in the assessment of impairment of property, plant and equipment were supported by the relevant evidence that we had gathered.</p>

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(cont'd)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(cont'd)

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Chiu Kong, Edmond.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 15 March 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended 31 December 2023

		Year ended 31 December	
	Note	2023 RMB'000	2022 RMB'000
Revenue	5	780,629	442,178
Cost of revenue	6	(206,643)	(71,563)
Research and development expenses	6	(103,890)	(151,168)
Selling expenses	6	(441,019)	(203,954)
General and administrative expenses	6	(68,310)	(62,587)
Net impairment losses on financial and contract assets	3.1.2	(11,481)	(597)
Other income and losses – net	9	17,654	8,615
Operating loss		(33,060)	(39,076)
Finance income	10	2,974	2,265
Finance costs	10	(5,175)	(6,602)
Finance costs – net	10	(2,201)	(4,337)
Share of net loss of the joint venture accounted for using the equity method	11	(2,495)	(6,633)
Loss before income tax		(37,756)	(50,046)
Income tax expense	12	(1)	–
Loss for the year		(37,757)	(50,046)
Loss is attributable to:			
Equity holders of the Company		(37,757)	(49,916)
Non-controlling interests		–	(130)
		(37,757)	(50,046)
Other comprehensive income:			
Exchange difference on translation	25	1,737	6,314
Other comprehensive income for the year, net of tax		1,737	6,314
Total comprehensive loss for the year		(36,020)	(43,732)
Total comprehensive loss for the year is attributable to:			
Equity holders of the Company		(36,020)	(43,602)
Non-controlling interests		–	(130)
		(36,020)	(43,732)
Loss per share for the year and attributable to the equity holders of the Company			
– Basic and diluted losses per share (RMB)	13	(0.05)	(0.08)

The above consolidated statement of comprehensive loss should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

As at 31 December 2023

As at 31 December			
	Note	2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	695,804	465,328
Prepayments for property, plant and equipment	14	1,803	82,477
Right-of-use assets	17	14,258	15,007
Investment properties	15	2,785	3,184
Intangible assets	16	8,839	4,648
Investments accounted for using the equity method	11	–	–
Other non-current assets	21	9,437	14,590
		732,926	585,234
Current assets			
Inventories	19	126,009	94,821
Other current assets	21	49,410	38,254
Trade and other receivables	20	88,152	53,387
Prepayments	21	18,715	20,012
Contract assets	5	54,916	9,278
Financial assets at fair value through profit or loss	18	–	40,278
Restricted cash	22	4,373	2,998
Cash and cash equivalents	22	351,600	417,769
		693,175	676,797
Total assets		1,426,101	1,262,031
EQUITY			
Share capital	24	2,297,499	2,297,499
Other reserves	25	72,472	61,911
Accumulated losses		(1,683,285)	(1,645,528)
Non-controlling interests		–	1,557
Total equity		686,686	715,439

Consolidated balance sheet
As at 31 December 2023

		As at 31 December	
	Note	2023 RMB'000	2022 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	28	302,685	212,133
Lease liabilities	30	194	345
Other non-current liabilities	31	54,050	58,767
		356,929	271,245
Current liabilities			
Borrowings	28	41,600	75,500
Trade and other payables	29	322,934	174,017
Contract liabilities	5	12,063	19,562
Lease liabilities	30	1,172	1,551
Other current liabilities	31	4,717	4,717
		382,486	275,347
Total liabilities		739,415	546,592
Total equity and liabilities		1,426,101	1,262,031
Net current assets		310,689	401,450
Total assets less current liabilities		1,043,615	986,684

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 83 to 158 were approved by the Board of Directors on 15 March 2024 and were signed on its behalf.

Mr. Liu, Jun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Note	Attributable to equity holders of the Company				Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000		
Balance at 1 January 2023		2,297,499	61,911	(1,645,528)	713,882	1,557	715,439
Loss for the year		-	-	(37,757)	(37,757)	-	(37,757)
Other comprehensive income	25	-	1,737	-	1,737	-	1,737
Total comprehensive loss		-	1,737	(37,757)	(36,020)	-	(36,020)
Transactions with owners							
Share-based compensation expense	26	-	10,643	-	10,643	-	10,643
Acquisition of equity interests in a subsidiary from non-controlling interests	25	-	(1,819)	-	(1,819)	(1,557)	(3,376)
Total transactions with owners		-	8,824	-	8,824	(1,557)	7,267
Balance at 31 December 2023		2,297,499	72,472	(1,683,285)	686,686	-	686,686
Balance at 1 January 2022		1,892,906	37,797	(1,595,612)	335,091	-	335,091
Loss for the year		-	-	(49,916)	(49,916)	(130)	(50,046)
Other comprehensive loss	25	-	6,314	-	6,314	-	6,314
Total comprehensive loss		-	6,314	(49,916)	(43,602)	(130)	(43,732)
Transactions with owners							
Share-based compensation expense	26	-	16,111	-	16,111	-	16,111
Capital injection from a non-controlling shareholder		-	1,689	-	1,689	1,687	3,376
Contributions of equity, net of transaction costs and tax	24	404,593	-	-	404,593	-	404,593
Total transactions with owners		404,593	17,800	-	422,393	1,687	424,080
Balance at 31 December 2022		2,297,499	61,911	(1,645,528)	713,882	1,557	715,439

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

		Year ended 31 December	
	Note	2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Net cash generated from operations	32(a)	53,458	57,664
Interest received		2,974	2,265
Income tax paid		(1)	–
Net cash generated from operating activities		56,431	59,929
Cash flows from investing activities			
Purchase of property, plant and equipment		(197,281)	(238,980)
Purchase of intangible assets	16	(5,919)	(1,143)
Proceeds from disposal of property, plant and equipment	32(b)	480	1,875
Investment in financial assets at fair value through profit or loss	18	(280,000)	(255,000)
Proceeds from disposal of financial assets at fair value through profit or loss	18	321,215	215,634
Cash injection into a joint venture	11	(5,600)	(5,150)
Proceeds from disposal of interests in joint venture		3,000	–
Net cash used in investing activities		(164,105)	(282,764)
Cash flows from financing activities			
Proceeds from bank borrowings	32(c)	132,152	277,858
Capital injections from shareholders	24	–	405,788
Payment for issuance costs		–	(1,195)
Repayment of bank borrowings	32(c)	(75,500)	(196,191)
Interest paid		(12,613)	(6,387)
Acquisition of equity interests from non-controlling interests	25	(3,376)	–
Capital contributions from minority shareholders	25	–	3,376
Payment of lease liabilities	32(c)	(2,438)	(2,009)
Net cash generated from financing activities		38,225	481,240
Net (decrease)/increase in cash and cash equivalents		(69,449)	258,405
Cash and cash equivalents at beginning of the year		417,769	152,805
Effects of exchange rate changes on cash and cash equivalents		3,280	6,559
Cash and cash equivalents at end of the year	22	351,600	417,769

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

TOT BIOPHARM International Company Limited (the “Company”) was incorporated in Hong Kong on 4 December 2009 as a company with limited liability under the Hong Kong Law. The address of its registered office is 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are primarily engaged in research and development (“R&D”), manufacturing, and marketing of anti-tumor drugs, contract development and manufacturing organization (“CDMO”)/contract manufacture organization (“CMO”) business and license-out of self-developed biological drugs in the People’s Republic of China (the “PRC”).

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 8 November 2019.

These financial statements are presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

2.1 Basis of preparation

2.1.1 Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) and requirements of the Hong Kong Companies Ordinance Cap. 622.

2.1.2 Historical cost convention

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(cont'd)*

2.1 Basis of preparation *(cont'd)*

2.1.3 *New and amended standards adopted by the Group*

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Standards	Key requirements	Effective Date
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 12 (Amendments)	International Tax Reform – Pillar Two Model Rules	1 January 2023

2.1.4 *New standards and interpretations not yet adopted*

Standards and amendments to standards that have been issued but not yet effective and not been early adopted by the Group during the period are as follows:

Standards	Key requirements	Effective for accounting periods beginning on or after
HKAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2024
HKAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
HKAS 7 and HKFRS 7 (Amendments)	Supplier finance arrangements	1 January 2024
HK Int 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the related impact of the above standards and amendments to standards which are relevant to the Group's operation.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group's financial performance and position.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.

3.1.1 Market risk

(a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The Company's functional currency is USD. The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency.

Certain bank balances and cash, trade receivables and other receivables, contract assets and other payables are denominated in foreign currencies of respective Group entities which are exposed to foreign currency risk. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity. The Group has entities operating in USD, New Taiwan Dollars ("NTD") and RMB, and the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

Most of the Group entities' functional currency is RMB since majority of the revenues of these entities are derived from operations in Mainland China. Foreign exchange risk arises from recognised assets or liabilities, such as trade and other receivables (Note 21), cash and cash equivalents (Note 22) and trade and other payables (Note 29), part of which are denominated in USD and NTD. If the USD strengthened/weakened by 5% against the RMB with all other variables held constant, net loss for the year ended 31 December 2023 would have been RMB1,406,000 lower/higher (2022: RMB2,459,000 lower/higher). If the NTD strengthened/weakened by 5% against the RMB with all other variables held constant, net loss for the year ended 31 December 2023 would have been RMB467,000 lower/higher (2022: RMB578,000 lower/higher).

(b) Price risk

As at 31 December 2023, the Group had no financial assets at fair value through other comprehensive income (2022: Nil).

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.1 Financial risk factors (cont'd)

3.1.1 Market risk (cont'd)

(c) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates exposed the Group to fair value interest rate risk.

The Group has not hedged its cash flow or fair value interest rate risk. As at 31 December 2023, the Group's borrowings at floating rate and fixed rate amounted to approximately RMB313,285,000 and RMB31,000,000 respectively.

The Group currently does not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk exposure. Management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arise.

As at 31 December 2023, if the interest rates on borrowings at floating rates had been 10% higher/lower with all other variables held constant, the Group's loss before income tax for the year would have been higher/lower by approximately RMB495,000 (2022: RMB461,000), mainly as a result of higher/lower interest expenses on borrowings.

3.1.2 Credit risk

Credit risk arises from cash and cash equivalents, financial assets at amortised cost and at fair value through profit or loss ("FVPL"), deposits with banks and financial institutions, as well as credit exposures to wholesale customers and CDMO/CMO customers, including outstanding receivables.

(a) Trade receivables and contract assets

According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. The utilization of credit limits is regularly monitored. Credit risk mainly arises from credit exposure from sales of goods and CDMO/CMO services, and credit terms are ranging from 45 to 90 days. Management makes periodic assessments as well as individual assessment on the recoverability based on historical settlements records and experience and adjusts for forward-looking information.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets.

On that basis, the loss allowance for trade receivables as at 31 December 2023 was RMB175,000 with expected loss rate 0.2% (2022: RMB597,000 with expected loss rate 1.2%) and the loss allowance provision for contract assets as at 31 December 2023 was RMB104,000 (2022: Nil).

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.1 Financial risk factors (cont'd)

3.1.2 Credit risk (cont'd)

- (b) *Cash and cash equivalents, Financial assets at FVPL, other receivables and long-term receivables of other non-current assets*

To manage this risk, cash and cash equivalents and financial assets at FVPL are mainly placed or invested with state-owned or reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no history of default in the recent years in relation to these financial institutions and accordingly no loss allowance provision was recognized. Management makes periodic assessments as well as individual assessment on the recoverability based on historical settlements records and past experience and adjusts for forward-looking information. Long-term receivables in other non-current assets are long-term deposits in supplier. Management has assessed that during the year, other receivables and long-term receivables in other non-current assets had an increase in credit risk. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of each reporting date is adopted by management.

On that basis, the loss allowance for other receivables as at 31 December 2023 was RMB4,614,000 (2022: Nil) and the loss allowance provision for long-term receivables in other non-current assets as at 31 December 2023 was RMB7,185,000 (2022: Nil).

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Impairment losses		
– movement in loss allowance for trade receivables and contract assets	(318)	597
Impairment losses on other receivables	4,614	–
Impairment losses on long-term receivables of other non-current assets	7,185	–
	11,481	597

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.1 Financial risk factors (cont'd)

3.1.3 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

The table below analyses the Group's non-derivative financial liabilities that will be settled into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2023

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Trade and other payables (i) (Note 29)	292,023	—	—	—
Other non-current liabilities (Note 31)	—	—	4,000	6,031
Borrowings (including interest payables) (Note 28)	53,748	104,412	142,290	89,303
Lease liabilities (including interest payables) (Note 30)	1,176	210	—	—
	346,947	104,622	146,290	95,334

As at 31 December 2022

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Trade and other payables (i) (Note 29)	143,195	—	—	—
Other non-current liabilities (Note 31)	—	—	4,000	6,031
Borrowings (including interest payables) (Note 28)	85,001	15,732	193,553	24,826
Lease liabilities (including interest payables) (Note 30)	1,619	346	—	—
	229,815	16,078	197,553	30,857

- (i) The amounts disclosed for the trade and other payables excludes staff salaries and welfare payables, refund liabilities, tax payables and interests payables.

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.2 Fair value estimation

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, trade and other receivables (excluding prepayments), contract assets, borrowings and trade and other payables) approximate their fair values.

The Group applies HKFRS 13 for financial instruments that are measured in the consolidated balance sheet at fair value, which requires disclosure of fair value measurements by levels of the following fair value measurement hierarchy:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.
- Level 2: The fair value of financial instruments that are not traded in an active market (For example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the Group's assets that were measured at fair value at 31 December 2023:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Financial assets at FVPL	—	—	—	—

The following table presents the Group's assets that were measured at fair value at 31 December 2022:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Financial assets at FVPL	—	—	40,278	40,278

3 FINANCIAL RISK MANAGEMENT (cont'd)

3.2 Fair value estimation (cont'd)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no changes in valuation techniques during the year ended 31 December 2023 (2022: same).

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year ended 31 December 2023 (2022: same).

The changes in level 3 instruments for the years ended 31 December 2023 are presented in Note 18.

Fair value of the Group's investment properties has been disclosed in Note 15. The fair value is within level 3 of the fair value hierarchy.

3.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital and provide returns for shareholders if the operation turns to profit. In order to maintain or adjust the capital structure, the Group may issue shares, obtain borrowings from bank and dispose assets in order to repay or refill operation capital, adjust the amount of dividends and return capital to shareholders, to maintain or adjust the capital structure, but not limited to the above.

The Group monitors capital on the basis of the net debt equity ratio. This ratio is calculated as "net debt" divided by "total equity". Net debt is calculated as total borrowings and lease liabilities less cash and cash equivalents and restricted cash. The net debt equity ratios as of 31 December 2023 and 2022 were as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Borrowings	344,285	287,633
Lease liabilities	1,366	1,896
Less: Cash and cash equivalents	(351,600)	(417,769)
Restricted cash	(4,373)	(2,998)
Net cash	(10,322)	(131,238)
Total equity	686,686	715,439
Net debt to equity ratio	N/A	N/A

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Assessment of impairment indicators of property, plant and equipment

At the end of each reporting period, the Group assesses whether there is any indication that the Group's property, plant and equipment may be impaired. To determine whether an impairment indicator exist, management considers both internal and external source of information, including the plan and progress of the research and development projects and the prospect of the technology. If any such indication exists, the Group will estimate the recoverable amount of the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

(b) Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(i) *Determining the timing of satisfaction of performance obligations*

The Group has different contractual arrangements with different customers. In determining the timing of satisfaction of performance obligations, management reviews the contract terms of each individual contract. For revenue under CDMO services, the management of the Company have determined that performance obligations are satisfied over time. Significant judgement is required in determining whether the terms of the Group's contracts with customers in relation to certain types of revenue under CDMO services create an enforceable right to payment for the Group.

(ii) *Determining the method for measuring progress towards complete satisfaction of performance obligations*

Depending on which better depicts the transfer of value to the customer, the management of the Company make judgement to measure the progress of the projects using the input method. Input method recognises revenue based on an entity's efforts or inputs towards satisfying a performance obligation relative to the total expected efforts or inputs to satisfy the performance obligation. If an entity does not have a reasonable basis to measure its progress, the Group recognises revenue up to the amount of the costs incurred, until progress can be reasonably measured.

(c) Research and development expenses

Development costs incurred on the Group's drug product pipelines are capitalized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development costs which do not meet these criteria are expensed when incurred. Determining the amounts to be capitalized 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. During the year, all expenses incurred for research and development activities were regarded as research expenses and therefore were expensed when incurred.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)**(d) Useful life of fixed assets**

The management of the Group determines the estimated useful lives of fixed assets. This estimate is based on experience with the actual useful lives of fixed assets of similar nature and function. This estimate may change significantly due to technological innovation or competitors taking action against severe industry cycles.

Management will increase the depreciation rate for assets with shorter useful lives than previously estimated, or give up and write off technically obsolete assets, or sell non-essential assets.

(e) Recognition of share-based compensation expenses

As mentioned in Note 26, share-based compensation plans were granted to the employees and other qualifying participants. The fair value of the options and restricted shares are determined by the Black-Scholes option-pricing model and market price respectively at the grant date, and is expected to be amortized over the respective vesting period. Significant estimate on assumptions, including underlying equity value, risk free interest rate, expected volatility, dividend yield and fulfilment of R&D targets, is required to be made by the directors.

5 SEGMENT AND REVENUE INFORMATION**(a) Description of segments and principal activities**

The Group is mainly engaged in the research and development, manufacturing, selling of anti-tumor drugs, CDMO/CMO business and license-out of self-developed biological drugs. The outcome of the Group's research and development activities will be given preference to be used by the Group for its own commercialization. There is one team managing and operating all revenue streams. Accordingly, management considers there is only one segment and hence no segment information is presented.

(b) The amount of each category of revenue is as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Timing of revenue recognition		
At a point in time:		
– Sales of goods	630,207	304,361
– CMO	29,552	20,630
– Commission revenue	7,930	9,098
– Revenue from license granted	–	54,151
– Others	532	708
Over time:		
– CDMO	111,346	51,908
– Clinical research and other contract research organisation ("CRO")	1,062	1,322
	780,629	442,178

5 SEGMENT AND REVENUE INFORMATION (cont'd)

(c) The following table presents the analysis of contract assets and contract liabilities related to the above-mentioned arrangements.

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Contract assets:		
– CDMO	54,260	7,067
– Sales commission	760	2,211
Loss allowance	(104)	–
	54,916	9,278
Contract liabilities		
– CDMO/CMO (i)	(10,944)	(18,420)
– Sales of goods	(1,119)	(1,142)
	(12,063)	(19,562)

(i) Contract liabilities arise from CDMO/CMO which are recognized when the payments are received before the services are rendered to customers.

(d) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liabilities.

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Revenue recognized that was included in the balance of contract liabilities at the beginning of the year		
– CDMO/CMO	18,059	20,827
– Sales of goods	1,138	–
	19,197	20,827

Contract duration of CDMO/CMO services are generally for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5 SEGMENT AND REVENUE INFORMATION (cont'd)**(e) Unfulfilled long-term contracts**

In January 2017, the Group entered into an agreement with a pharmaceutical company for licensing one of its bio-pharmaceutical know-how to the customer for development and commercialization for a period of 10 years.

The license contract includes an upfront fee, certain development-milestone payments and commercial-milestone payments of RMB84,500,000 (including tax) in aggregate. The contract also includes sales-based royalties. The Group has received the upfront payment and development milestone payments of RMB55,500,000 (including tax) in total as at 31 December 2023. For the year ended 31 December 2023, there was no development milestone and commercial milestone achieved by the Group (For the year ended 31 December 2022: certain development milestone of RMB32,400,000 (including tax) was achieved). The Group is entitled to receive up to an aggregate of RMB29,000,000 (including tax) upon the achievement of additional development and commercial milestones.

In January 2022, the Group entered into an agreement with a pharmaceutical company for licensing one of its biological antibody drugs to the customer for development and commercialization in certain overseas regions (the "Cooperation Area") for 10 years after the date of obtaining the marketing authorization by the first regulatory authority in the Cooperation Area.

The license contract includes an upfront fee and certain development milestone payments of RMB30,000,000 (including tax) in aggregate. The contract also includes sales-based royalties. For the year ended 31 December 2023, there was no development milestone and commercial milestone achieved by the Group (For the year ended 31 December 2022: certain development milestone of RMB25,000,000 (including tax) was achieved). The Group is further entitled to receive up to an aggregate of RMB5,000,000 (including tax) upon the achievement of additional specified milestones related to the development and regulatory approval of the biological antibody drugs.

(f) Geographical information

Geographical information of revenue and non-current assets other than financial assets for the years ended 31 December 2023 and 2022 is as follows:

	Year ended 31 December			
	2023		2022	
	Revenue	Non-current assets	Revenue	Non-current assets
	RMB'000	RMB'000	RMB'000	RMB'000
Mainland China	780,629	724,934	442,178	570,366
Others	—	—	—	328
	780,629	724,934	442,178	570,694

5 SEGMENT AND REVENUE INFORMATION *(cont'd)*

(g) Accounting policies of revenue recognition

Revenue is recognized to depict the provision of promised services and transfer of goods to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services or goods.

Revenue is recognized when, or as, obligations under the terms of a contract are satisfied, which occurs when control of the promised products or services is transferred to customers. Revenue is measured as the amount of consideration the Group expects to receive in exchange for transferring products or services to a customer ("transaction price").

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

Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due. There is normally no significant cost to obtain contract.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The following is a description of the accounting policy for the principal revenue streams of the Group.

(a) Revenue from sales of goods

The Group sells certain pharmaceutical products to the customer. Sales are recognized when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location where the risks of obsolescence and loss have been transferred to the client, and either the client has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied. The price is normally fixed and with no sales discount or volume rebate. A refund liability (included in trade and other payables) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Costs related to sales of goods are included in "cost of revenue".

5 SEGMENT AND REVENUE INFORMATION *(cont'd)*

(g) Accounting policies of revenue recognition *(cont'd)*

(b) *Revenue from CMO services*

CMO provides commercial manufacturing of products for companies that had already developed and validated pharmaceutical manufacturing processes.

The Group earns revenue from providing CMO services to other pharmaceutical companies. Contract duration is generally less than one year. If the contract is early terminated, the Company is only entitled to the compensation for the cost of any in-progress or undelivered products. Therefore the contract is accounted for at point in time upon transfer of the control of the products to the customers which is generally when the customers accept the products. Contract price is generally fixed and paid according to payment schedule as agreed in the contract. Upfront payments received by the Group are initially recognized as a contract liability. Costs including raw materials, labour, depreciation and other production costs attributable to CMO services are included in "cost of revenue".

(c) *Revenue from CDMO services*

CDMO provides integrated services including drug manufacturing, development, optimization and trial production etc. These services allow companies to outsource development and manufacturing work and move quickly from product concept into first-in-human studies.

The Group earns revenue from providing CDMO services to other pharmaceutical companies. Contract duration is generally less than one year and includes a single performance obligation as delivery of integrated services over a period of time. The contract is normally at fixed price and paid according to milestones specified in the contract. Upfront payments received by the Group are initially recognized as a contract liability. Services revenue is recognized as the performance obligation satisfied over time based on the stage of completion of the contract. The Group uses input method to measure progress towards complete satisfaction of the performance obligation under HKFRS 15. Costs including raw materials, labour, depreciation and other production costs attributable to CDMO services are included in "cost of revenue".

(d) *Revenue from CRO services*

Clinical research services mainly include clinical development services, which include project planning, clinical operation and monitoring and managements of clinical trials, outcomes research and embedded outsourcing.

The Group earns revenues from providing CRO services to other pharmaceutical companies. Contracts mainly include a single performance obligation as delivery of integrated services over a period of time. The contracts are normally at fixed price and paid according to milestones specified in the contracts. Upfront payments received by the Group are initially recognized as a contract liability. Services revenue is recognized as the performance obligation satisfied over time based on the stage of completion of the contracts. The Group uses input method to measure progress towards complete satisfaction of the performance obligation under HKFRS 15. Costs including labour, outsourcing CRO services and other costs attributable to CRO services are included in "cost of revenue".

5 SEGMENT AND REVENUE INFORMATION *(cont'd)*

(g) Accounting policies of revenue recognition *(cont'd)*

(e) *Revenue from license granted*

The Group provides license of its intellectual properties ("IP") to customers as well as providing certain R&D service. The license of IP and the R&D service are distinct performance obligations. The consideration comprises a fixed element (the upfront payment) and two variable elements (development milestone payment and royalties based on future sales). Initially only fixed consideration is included in the transaction price. The amount of the variable consideration for milestone payments included in the transaction price is determined to be zero at inception, based on the most likely amount and the application of the variable consideration constraint, i.e. such variable consideration is only included in the transaction price when it is highly probable that no significant reversal of revenue when the uncertainty is resolved. The non-refundable upfront payment only relates to the license and R&D service. The upfront payment is allocated between the two performance obligations based on the stand-alone selling price. The sales-based royalty will only be included in the transaction price when actual sales are made.

The control of the license transfers at point in time, when the customer obtains the right to use the underlying IP of the license. The sales-based royalties are recognized as revenue when the subsequent sales are made.

(f) *Revenue from commission*

The Group earns commission from providing promotion services to its customers, which are pharmaceutical companies, helping them to sell their products in the market. The Group is not the principal for selling those products, as it does not have control over the products to be sold, act as the primary obligor for selling the product neither, bear any inventory risk nor have any price discretion. The commission is based on pre-determined percentage of the actual monthly sales, and settled with the customers periodically, subject to annual price adjustment based on actual volume. The Group includes the price adjustment in the transaction price such that it is highly probable that there will not be significant reversal of revenue in future when the uncertainty is resolved. The right to consideration relating to price adjustment is recorded as contract assets and it will be transferred to receivables when the right is unconditional except for passage of time. The Group is not the principal in selling the products. Accordingly, the Group recognizes commission revenue at the net amount to which it expects to be entitled in exchange for its service.

6 EXPENSES BY NATURE

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Changes in inventories of finished goods and work in progress	(34,089)	(39,628)
Promotion and advertisement expenses	428,455	195,934
Employee benefit expenses (Note 7)	174,463	137,960
Raw materials and consumables used	97,043	39,735
Amortization and depreciation (Notes 14, 15, 16 and 17)	43,028	38,039
Utilities	23,357	17,028
Repairs and maintenance expenses	12,647	9,358
Clinical trials (exclude employee benefit expenses)	11,299	38,056
Professional services	9,695	10,667
Impairment of property, plant and equipment	7,154	–
Other third-party research contracting costs	6,221	3,892
Other taxes	5,839	3,308
R&D materials and consumables	5,570	5,620
Transportation expenses	3,478	2,012
Auditor's remuneration		
– audit service	3,297	3,200
– non-audit service	36	30
Write-down of inventories	2,825	2,696
Travelling expenses	2,780	1,562
Pre-clinical trials	1,662	3,884
Other expenses	15,102	15,919
Total cost of revenue, research and development expenses, selling expenses and general and administrative expenses	819,862	489,272

7 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS)

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Salaries, wages and bonuses	132,040	100,194
Contributions to pension plans (Note)	13,463	9,960
Housing fund, medical insurance and other social insurance	11,221	8,965
Share-based compensation expenses (Note 26)	10,643	16,111
Other welfare for employees	7,096	2,730
	174,463	137,960

Note: The employees of the Group in the PRC are members of a state-managed pension scheme operated by the PRC Government. The Group is required to contribute a specified percentage of payroll costs as determined by local government authority to the pension obligations to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contribution under the scheme.

TOT Taipei has established a defined contribution pension plan under the Labour Pension Act, covering all regular Taiwan employees. Under the plan, the Group contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labour Insurance. The only obligation of the Group with respect to the defined contribution pension plan is to make the specified contribution under the plan.

8 DIRECTORS' AND OTHER SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

Directors and chief executives' emoluments for the years ended 31 December 2023 and 2022 are set out as follows:

	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Employer's social security costs RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Year ended 31 December 2023						
Chairman of the Board						
Mr. Fu, Shan	-	-	-	-	-	-
Non-executive directors						
Mr. Qiu, Yu Min (Note 1)	-	-	-	-	-	-
Dr. Liu, Weidong (Note 2)	-	-	-	-	-	-
Ms. Yeh-Huang, Chun-Ying (Note 3)	-	565	-	35	-	600
Mr. Chang, Hong-Jen	282	-	-	-	-	282
Ms. Hu, Lan	282	-	-	-	-	282
Dr. Wang, De Qian	282	-	-	-	-	282
Executive director						
Dr. Liu, Jun	-	3,726	135	91	3,576	7,528
	846	4,291	135	126	3,576	8,974

8 DIRECTORS' AND OTHER SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(a) Directors' and chief executive's emoluments (cont'd)

	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Employer's social security costs RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
Year ended 31 December 2022						
Chairman of the Board						
Mr. Fu, Shan	-	-	-	-	-	-
Non-executive directors						
Mr. Chang, Hong-Jen	253	-	-	-	-	253
Ms. Hu, Lan	253	-	-	-	-	253
Dr. Wang, De Qian	203	-	-	-	-	203
Mr. Qiu, Yu Min	-	-	-	-	-	-
Mr. Sun, Lijun Richard (Note 4)	51	-	-	-	-	51
Executive directors						
Ms. Yeh-Huang, Chun-Ying (Note 3)	-	2,621	72	9	-	2,702
Dr. Liu, Jun	-	2,878	64	83	1,881	4,906
	760	5,499	136	92	1,881	8,368

Note 1: Mr. Qiu, Yu Min resigned on 12 August 2023.

Note 2: Dr. Liu, Weidong has been appointed as a non-executive director, Chairperson of the Remuneration Committee, and member of the Audit and Connected Transactions Review Committee and the Strategy and ESG Committee of the Company, all effective from 12 August 2023.

Note 3: Ms. Yeh-Huang, Chun-Ying was re-designated from an executive Director to a non-executive Director of the Company with effect from 1 January 2023 but remain as the Vice Chairperson of the Board.

Note 4: Dr. Sun, Lijun Richard resigned on 12 March 2022.

8 DIRECTORS' AND OTHER SENIOR MANAGEMENT'S EMOLUMENTS *(cont'd)*

(b) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2022: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year, the Company did not pay consideration to any third parties for making available directors' services (2022: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors

There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2022: Nil).

(e) Inducement or waiver of emoluments

During the year, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office, and no directors waived or had agreed to waive any emoluments (2022: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year (2022: Nil).

8 DIRECTORS' AND OTHER SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)**(g) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group include one director (2022: two directors) for the year ended 31 December 2023. Their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four individuals (2022: three individuals) during the year are as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Salaries, wages and bonuses	5,900	4,347
Social security costs	471	269
Share-based compensation expenses	3,450	2,379
	9,821	6,995

The emoluments of the top five highest paid individuals fell within the following bands:

	Year ended 31 December	
	2023	2022
Emoluments bands		
HKD2,000,000 to HKD2,500,000	2	1
HKD2,500,000 to HKD3,000,000	1	1
HKD3,000,000 to HKD3,500,000	1	1
	4	3

9 OTHER INCOME AND LOSSES – NET

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Other income:		
– Government grants (Note)	17,786	8,260
– Rental income of investment properties (Note 15)	330	285
– Others	–	267
	18,116	8,812
Other gains/(losses):		
– Net foreign exchange gains – net	2,261	1,302
– Net fair value gains on financial assets at FVPL (Note 18)	937	912
– Loss on disposals of property, plant and equipment	(3,420)	(2,359)
– Others	(240)	(52)
	(462)	(197)
Total other income and losses – net	17,654	8,615

Note: There are no unfulfilled conditions or other contingencies attaching to these grants.

10 FINANCE COSTS – NET

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Finance income		
– Interest income on bank deposits	2,974	2,265
Finance costs		
– Interest expenses on bank borrowings	(5,068)	(6,487)
– Interest expenses on lease liabilities	(107)	(115)
	(5,175)	(6,602)
	(2,201)	(4,337)

11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**Investment in a jointly controlled entity**

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
As at 1 January	–	1,483
Additions	5,600	5,150
Share of net loss of the joint venture accounted for using the equity method	(2,495)	(6,633)
Disposal (Note 25(iii)(b))	(3,000)	–
Liquidation (Note)	(105)	–
As at 31 December	–	–

Note: On 19 October 2023, all shareholders of joint venture Huayao Pharmaceutical (Suzhou) Company Limited ("Huayao") decided to liquidate Huayao. The business registration cancellation was completed on 30 December 2023. According to the shareholder meeting resolution on 23 December 2023, the final distribution amount to the Group was RMB105,000.

Set out below are the summarised financial information for the Group's jointly controlled entity which is accounted for using the equity method:

*Huayao:**Summarised balance sheet*

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current		
Total current assets	–	130
Total current liabilities	–	(3,394)
Non-current		
Total non-current assets	–	114
Total non-current liabilities	–	–
Net deficit	–	(3,150)

11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (cont'd)

Investment in a jointly controlled entity (cont'd)

Huayao: (cont'd)

Summarised statement of comprehensive loss

	For the period from 1 January 2023 to 30 December 2023 (date of liquidation) RMB'000	For the year ended 31 December 2022 RMB'000
Revenue	6,733	–
Loss before income tax expense	(3,758)	(16,224)
Income tax expense	–	–
Loss for the period	(3,758)	(16,224)
Share of net loss of the joint venture accounted for using the equity method	(2,495)	(6,633)

12 INCOME TAX EXPENSE

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Current income tax expenses		
– Tax filing difference for prior Year	1	–
Deferred income tax expense	–	–
	1	–

The Group's principal applicable taxes and tax rates are as follows:

(a) Hong Kong

No provision for Hong Kong profits tax has been provided for at the rate of 16.5% (2022: 16.5%) as the Company has no estimated assessable profit for the year ended 31 December 2023 (2022: Nil).

(b) Mainland China

No provision for mainland China income tax has been provided for at the rate of 25% or 15% (2022: 25% or 15%) pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the "CIT Law"), as the Group's PRC entities have no estimated assessable profit for the year ended 31 December 2023.

TOT BIOPHARM Co., Ltd. ("TOT Suzhou") was qualified as a "High and New Technology Enterprise" under the relevant PRC laws and regulations from 2023 to 2025. TOT Suzhou was entitled to enjoy a beneficial income tax rate of 15% for the year ended 31 December 2023 (2022: 15%).

12 INCOME TAX EXPENSE (cont'd)**(c) Taiwan corporate income tax**

No provision for Taiwan corporate income tax has been provided for at the rate of 20% (2022: 20%) as the Group's Taiwan subsidiary has no estimated assessable profit for the year ended 31 December 2023.

(d) The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to loss of the consolidated entities as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Loss before income tax	(37,756)	(50,046)
Tax calculated at statutory tax rates applicable to each Group entity	(6,726)	(11,037)
Tax effect of:		
Preferential tax rate of certain subsidiary	719	8,619
Expenses not deductible for tax purposes	6,886	8,534
Additional deduction of research and development	(12,347)	(20,419)
Tax loss not recognized as deferred tax assets	11,470	14,303
Utilisation of tax losses for which no deferred income tax asset was recognised	(2)	—
Tax filing difference for prior Year	(1)	—
Income tax expense	(1)	—

The Group has operation mainly in Mainland China and Hong Kong. It is within the scope of the OECD Pillar Two model rules. As of the reporting date, there is no public announcement in Mainland China. Hong Kong has announced that it plans to implement the Global Minimum Tax and Hong Kong Domestic Minimum Top-up Tax starting from 2025 onwards but it is still under public consultation with the expectation that draft legislation will be published in the second half of 2024.

Since the Pillar Two legislation was not effective at the reporting date, the Group has no related current tax exposure. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to HKAS 12 issued in November 2023.

In addition, since the Pillar Two legislation in the jurisdictions that the Group operates in was not enacted or substantively enacted as at the reporting date, and due to the uncertainty of the announcement of the legislation and the complexities in applying the legislation and calculating GloBE income, the Group is in the process of assessing its exposure to the Pillar Two legislation for when it comes into effect.

12 INCOME TAX EXPENSE (cont'd)**(e) Deferred tax assets not recognized:**

The Group has not recognized any deferred tax assets in respect of the following items:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Deductible losses	1,780,590	1,730,771
Deductible temporary differences	128,418	87,508
	1,909,008	1,818,279

(f) Deductible losses that are not recognized as deferred tax assets will be expired as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
2023	—	45,221
2024	49,487	49,487
2025	60,608	60,608
2026	85,748	85,825
2027	130,419	130,419
2028	290,006	289,901
2029	297,972	297,972
2030	384,046	384,046
2031	294,395	294,395
2032	110,958	92,897
2033	76,951	—
	1,780,590	1,730,771

The tax losses of the Company's PRC subsidiaries will expire within five years, except for TOT Suzhou of while the tax losses will expire within ten years as TOT Suzhou is qualified as High and New Technology Enterprise.

13 LOSS PER SHARE**(a) Basic loss per share**

Basic loss per share is calculated by dividing the loss of the Group attributable to owners of the Company by weighted average number of ordinary shares issued during the year excluding treasury shares.

	Year ended 31 December	
	2023	2022
Loss attributable to equity holders of the Company (RMB'000)	(37,757)	(49,916)
Weighted average number of ordinary shares in issue (thousand)	725,197	639,307
Basic loss per share (RMB)	(0.05)	(0.08)

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2023, the Company had one category of potential ordinary shares: the stock options granted to employees (Note 26) (2022: same). As the Group incurred losses for the years ended 31 December 2023 and 2022, the potential ordinary shares have not been included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended 31 December 2023 and 2022 is the same as basic loss per share of the respective years.

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Utilities equipment RMB'000	Machinery RMB'000	Testing equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2023							
Cost	110,899	48,118	64,669	108,714	33,268	241,410	607,078
Accumulated depreciation and impairment	(34,189)	(21,618)	(22,900)	(47,466)	(15,577)	-	(141,750)
Net book amount	76,710	26,500	41,769	61,248	17,691	241,410	465,328
Year ended 31 December 2023							
Opening net book amount	76,710	26,500	41,769	61,248	17,691	241,410	465,328
Additions	161	492	4,674	3,005	16,654	254,938	279,924
Disposals	(253)	-	(3,211)	(402)	(34)	-	(3,900)
Transfers	87,078	8,520	149,828	21,360	2,171	(268,957)	-
Depreciation charge (Note 6)	(6,643)	(4,262)	(10,428)	(9,728)	(7,338)	-	(38,399)
Impairment loss	-	-	-	-	-	(7,154)	(7,154)
Net exchange differences	-	-	5	-	-	-	5
Closing net book amount	157,053	31,250	182,637	75,483	29,144	220,237	695,804
At 31 December 2023							
Cost	197,700	57,130	206,157	129,620	51,860	220,237	862,704
Accumulated depreciation and impairment	(40,647)	(25,880)	(23,520)	(54,137)	(22,716)	-	(166,900)
Net book amount	157,053	31,250	182,637	75,483	29,144	220,237	695,804
At 1 January 2022							
Cost	119,737	47,404	63,499	104,782	28,041	65,977	429,440
Accumulated depreciation and impairment	(36,489)	(16,985)	(16,938)	(41,430)	(9,930)	-	(121,772)
Net book amount	83,248	30,419	46,561	63,352	18,111	65,977	307,668
Year ended 31 December 2022							
Opening net book amount	83,248	30,419	46,561	63,352	18,111	65,977	307,668
Additions	426	176	1,826	7,359	5,165	181,051	196,003
Disposals	(1,805)	-	(653)	(1,703)	(73)	-	(4,234)
Transfers	2,035	538	194	2,484	367	(5,618)	-
Depreciation charge (Note 6)	(7,194)	(4,633)	(6,154)	(10,244)	(5,879)	-	(34,104)
Net exchange differences	-	-	(5)	-	-	-	(5)
Closing net book amount	76,710	26,500	41,769	61,248	17,691	241,410	465,328
At 31 December 2022							
Cost	110,899	48,118	64,669	108,714	33,268	241,410	607,078
Accumulated depreciation and impairment	(34,189)	(21,618)	(22,900)	(47,466)	(15,577)	-	(141,750)
Net book amount	76,710	26,500	41,769	61,248	17,691	241,410	465,328

14 PROPERTY, PLANT AND EQUIPMENT (cont'd)

- (a) Depreciation charges have been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Research and development expenses	20,417	21,424
Cost of sales	16,467	10,945
General and administrative expenses	1,459	1,726
Selling expenses	56	9
	38,399	34,104

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives, as follows:

Buildings	10-20 years
Utilities equipment	10 years
Machinery	5-10 years
Testing equipment	5-10 years
Others	5-10 years

See Note 37.5 for the other accounting policies relevant to Property, plant and equipment.

- (b) Prepayments for property, plant and equipment amounted to RMB1,803,000 (2022: RMB82,477,000) as at 31 December 2023. During the year, RMB82,477,000 (2022: RMB33,259,000) was transferred from prepayments for property, plant and equipment to testing equipment, machinery and construction in progress.
- (c) Borrowing costs of RMB8,617,000 have been capitalized in the year ended 31 December 2023 (2022: RMB3,606,000).

15 INVESTMENT PROPERTIES

Investment properties are all located in the PRC with estimated useful lives within 50 years.

The movement of investment properties is analysed as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Cost	8,409	8,409
Accumulated depreciation	(5,624)	(5,225)
Net book amount	2,785	3,184
Opening net book amount	3,184	3,583
Depreciation (Note 6)	(399)	(399)
Closing net book amount	2,785	3,184

Investment properties, principally comprising buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives.

As at 31 December 2023, the fair values of the investment properties were approximately RMB7,700,000 (2022: RMB7,700,000). These estimates are made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties.

(a) Amounts recognised in profit or loss for investment properties

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Rental income (Note 9)	330	285
Direct operating expenses from investment properties that generated rental income	(399)	(399)

(b) Leasing arrangements

The investment properties are leased to tenants under operating leases with rentals payable monthly. Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Where considered necessary to reduce credit risk, the Group may obtain bank guarantees for the term of the lease.

16 INTANGIBLE ASSETS

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Software		
Cost	15,646	9,727
Accumulated amortization	(6,807)	(5,079)
Net book amount	8,839	4,648
Opening net book amount	4,648	5,123
Additions	5,919	1,143
Amortization charge (Note 6)	(1,728)	(1,618)
Closing net book amount	8,839	4,648

Amortization charge has been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
General and administrative expenses	1,728	1,618

17 RIGHT-OF-USE ASSETS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Land use rights	12,636	12,982
Others	1,622	2,025
	14,258	15,007

17 RIGHT-OF-USE ASSETS (cont'd)**(a) Land use rights**

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC and the lease term is 50 years. The net book amount of which is analysed as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Cost	17,273	17,273
Accumulated amortization	(4,637)	(4,291)
Net book amount	12,636	12,982
Opening net book amount	12,982	13,328
Amortization charge (Note 6)	(346)	(346)
Closing net book amount	12,636	12,982

Amortization charge has been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Cost of revenue	299	299
General and administrative expenses	43	43
Selling expenses	4	4
	346	346

17 RIGHT-OF-USE ASSETS (cont'd)**(b) Others**

The Group leases properties for own use. Information about leases for which the Group is a lessee is presented below:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Cost	4,976	4,405
Accumulated depreciation	(3,354)	(2,380)
Net book amount	1,622	2,025
Opening net book amount	2,025	2,405
Additions	2,373	1,193
Termination	(620)	–
Depreciation charge (Note 6)	(2,156)	(1,572)
Net exchange differences	–	(1)
Closing net book amount	1,622	2,025

The consolidated statement of comprehensive loss and the consolidated statement of cash flows contain the following amounts relating to leases:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Depreciation and amortization charge of right-of-use assets	2,502	1,918
Interest expenses (Note 10)	107	115
Expenses relating to short-term leases	674	504

The total cash outflow for leases in 2023 was RMB2,931,000 (2022: RMB2,513,000).

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Opening balance	40,278	–
Additions	280,000	255,000
Changes in the fair value of financial assets at FVPL	937	912
Disposal	(321,215)	(215,634)
Closing balance	–	40,278

The Group entered into contracts in respect of wealth management products from banks with an expected but not guaranteed rates of return ranging from 1.30% to 4.67% per annum for the year ended 31 December 2023 (2022: 1.3% to 3.45%). According to the contracts terms, the Group should hold the financial products for at least 30 days. The Group managed and evaluated the performance of investments on a fair value basis as at 31 December 2023 (2022: same).

19 INVENTORIES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Raw materials	40,752	45,073
Work in progress	47,171	25,228
Finished goods	33,922	21,776
Consumables	4,164	2,744
	126,009	94,821

(a) Amounts recognised in profit or loss

Write-downs of inventories to net realisable value amounted to RMB2,825,000 (2022: RMB2,696,000). These were recognised as an expense during the year ended 31 December 2023 and included in 'cost of revenue' in the consolidated statement of profit or loss.

20 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade receivables	85,964	49,721
Other receivables	6,977	4,263
Less: provision for impairment of trade receivables	(175)	(597)
Less: provision for impairment of other receivables	(4,614)	–
Trade and other receivables	88,152	53,387

(a) Trade receivables

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade receivables	85,964	49,721

Customers are generally granted with credit terms ranging from 45 to 90 days.

As of 31 December 2023 and 2022, the ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within 30 days	54,628	28,716
31 days to 90 days	31,213	17,490
91 days to 180 days	116	2,210
181 days to 270 days	–	1,298
271 days to 360 days	–	7
1 year to 2 years	7	–
	85,964	49,721

As at 31 December 2023, the carrying amounts of the Group's trade receivables are denominated in RMB and approximate to their fair values (2022: same).

20 TRADE AND OTHER RECEIVABLES (cont'd)**(b) Other receivables**

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Deposits (Note)	6,764	3,181
Others	213	1,082
Other receivables	6,977	4,263

Note: The deposits include a loan with the amount of RMB2,500,000 to a third party and a procurement deposit amounted to NTD18,053,000 (equivalent to RMB4,300,000) to a third party. As at 31 December 2023, the management assessed that a portion of the deposits is expected to be recovered. The impairment of these deposits was approximately RMB4,614,000 (2022: Nil).

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
RMB	88,677	53,622
NTD	4,300	—
USD	—	362
	92,977	53,984

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

The carrying amounts of the Group's other receivables approximate to their fair values.

21 PREPAYMENTS AND OTHER CURRENT AND NON-CURRENT ASSETS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Prepayments – current		
Prepayments for consumables	5,911	16,612
Prepaid research expenses	5,791	415
Others	7,013	2,985
	18,715	20,012
Other current assets		
Value-added tax to be refunded	49,393	38,077
Right to returned goods (Note 29)	17	177
	49,410	38,254
Other non-current assets		
Deposits (Note)	15,177	14,540
Others	1,445	50
Less: provision for impairment of deposits	(7,185)	–
	9,437	14,590
	77,562	72,856

Note: Deposits are paid for entering into exclusive distribution agreements with certain pharmaceutical companies. In 2021, the Group paid deposits of NTD62,100,000, equivalent to RMB14,115,000. As at 31 December 2023, the management assessed that a portion of the deposits is expected to be recovered. The impairment of these deposits was approximately RMB7,185,000 (2022: Nil).

22 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cash at bank and on hand	355,973	420,767
Less: Restricted cash (Note)	(4,373)	(2,998)
	351,600	417,769

Note: As at 31 December 2023, restricted cash included bank deposits pledged as security for the procurement transaction (2022: restricted cash were bank deposits pledged as security for the issuance of letter of credit).

The carrying amounts of the Group's cash at bank and on hand are denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cash on hand		
– NTD	5	4
Cash at bank		
– RMB	305,353	319,611
– HKD	33,779	92,456
– USD	15,487	6,919
– EUR	1,349	1,777
	355,973	420,767

23 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Assets		
Financial assets at fair value:		
– Financial assets at FVPL (Note 18)	–	40,278
Financial assets at amortized costs:		
– Deposits – non-current (Note 21)	7,992	14,540
– Trade receivables and other receivables (Note 20)	88,152	53,387
– Cash and cash equivalents including restricted cash (Note 22)	355,973	420,767
Total	452,117	528,972
Liabilities		
Financial liabilities at amortized cost		
– Trade and other payables (Note 29)	292,437	143,549
– Borrowings – current (Note 28)	41,600	75,500
– Borrowings – non-current (Note 28)	302,685	212,133
– Other non – current liabilities (Note 31)	10,031	10,031
Lease liabilities at amortized cost – current (Note 30)	1,172	1,551
Lease liabilities at amortized cost – non-current (Note 30)	194	345
Total	648,119	443,109

24 SHARE CAPITAL

	Number of ordinary shares issued	Share capital RMB'000
As at 1 January 2022	615,229,497	1,892,906
Issue of shares to shareholders (Note (a))	150,000,000	404,593
Issue of shares for 2022 Restricted Shares Award Scheme (Note (b))	7,558,390	–
As at 31 December 2022	772,787,887	2,297,499
As at 1 January 2023 and 31 December 2023	772,787,887	2,297,499

Note (a): On 29 July 2022, the Company allotted and issued 150,000,000 subscription shares at the price of HKD 3.15 per share to two shareholders: (i) Center Laboratories, Inc. has been allotted and issued 33,750,000 subscription shares; and (ii) Vivo (Suzhou) Health Industry Investment Fund (Limited Partnership) has been allotted and issued 116,250,000 subscription shares. The two shareholders injected capital of approximately HKD 472,500,000 (equivalent to approximately RMB405,788,000) in total. The gross proceeds, net of transaction costs, are capitalized as share capital accordingly.

Note (b): On 1 November 2022, the Company allotted and issued 7,558,390 ordinary shares to certain trustees at a subscription price of zero under the Company's 2022 Restricted Share Award Scheme. These award shares are within the Company's control until the shares are vested to the participants and hence are considered as treasury shares in substance.

(i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Shares held for employee share scheme

As at 31 December 2023, 47,590,948 ordinary shares included all ordinary shares issued are within the Company's control until the shares are vested to the participants and hence are considered as treasury shares in substance (2022: same).

	2023 Shares	2022 Shares	2023 RMB'000	2022 RMB'000
Shares held for employee share scheme	47,590,948	47,590,948	–	–

25 OTHER RESERVES

	Share-based compensation reserve (i) RMB'000	Foreign currency translation reserve (ii) RMB'000	Transactions with non-controlling interests (iii) RMB'000	Gain from investments in equity instruments measured at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2023	73,973	(13,751)	1,689	–	61,911
Share-based compensation expense (Note 26)	10,643	–	–	–	10,643
Currency translation differences	–	1,737	–	–	1,737
Acquisition of equity interests in a subsidiary from non-controlling interests	–	–	(1,819)	–	(1,819)
At 31 December 2023	84,616	(12,014)	(130)	–	72,472
At 1 January 2022	57,862	(20,065)	–	–	37,797
Share-based compensation expense (Note 26)	16,111	–	–	–	16,111
Currency translation differences	–	6,314	–	–	6,314
Others	–	–	1,689	–	1,689
At 31 December 2022	73,973	(13,751)	1,689	–	61,911

25 OTHER RESERVES (cont'd)

- (i) Share-based compensation reserve arises from share-based payments granted to employees of the Group.
- (ii) Foreign currency translation reserve represents the difference arising from the translation of financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Group.
- (iii) (a) On 5 January 2023, Vivo Capital Fund VIII, the Company and Yaozhan entered into the equity transfer agreement, pursuant to which the parties agreed to carry out the equity transfers, specifically that (i) Vivo Capital Fund VIII agreed to transfer the entirety of its fully paid-up registered capital in Yaozhan amounting to USD500,000 to the Company, which had been completed at 13 January 2023; (ii) Yaozhan agreed to transfer part of its partially paid-up registered capital in Huayao amounting to RMB6,000,000 (of which RMB3,000,000 has been paid up) to Vivo Capital Fund VIII.

Upon the completion of the equity transfers, Yaozhan became a 100% subsidiary of the company, and Vivo Capital Fund VIII was no longer been a minority shareholder of Yaozhan and instead became a minority shareholder of Huayao.

- (b) On 7 January 2022, Vivo Capital Fund VIII, L.P. ("Vivo Capital Fund VIII"), the Company and its subsidiary Yaozhan Pharmaceutical Jiangsu Co., Ltd. ("Yaozhan") entered into the agreement of capital injection to Yaozhan, pursuant to which Vivo Capital Fund VIII agreed to contribute USD500,000 to Yaozhan. Before the capital injection, the Group held 100% equity interests of Yaozhan and had control over it. Upon completion of the capital injection, the Group and Vivo Capital Fund VIII hold 82.46% and 17.54% equity interest in Yaozhan respectively and the Group still has control over Yaozhan. As a result, the capital injection was deemed as a disposal of 17.54% equity interest in Yaozhan to the non-controlling interest without change of control by the Group.

The carrying amount attributable to Vivo Capital Fund VIII after the disposal and the consideration of the disposal of equity interest in Yaozhan were RMB1,687,000 and USD500,000 (equivalent to RMB3,376,000) respectively. Accordingly, the Group recognised RMB1,819,000 as acquisition of equity interests in subsidiaries from non-controlling interests in other reserves at the year end.

26 SHARE-BASED PAYMENTS

(a) Stock options and restricted shares granted

On 1 November 2022, the Board of Directors passed a resolution to grant 7,558,390 shares under the 2022 Restricted Share Award Scheme to certain employees of the Group, as rewards for their services to certain of the Group's subsidiaries. The exercise price of the restricted shares is HKD0.6. All restricted shares shall expire in ten years from the respective grant dates. The details of the vesting conditions are set out in note (c) below.

(b) Employee stock options

(i) The Group's employee stock options arrangements are as follows:

Type of arrangement	Grant date	Contract period	Vesting conditions
Employee stock options – 2017 ("2017 Plan")	From December 2017 to July 2018	10 years	(Note i)
Employee stock options – 2018 ("2018 Plan")	From January 2019 to February 2019	10 years	(Note ii)
Employee stock options – 2018 ("2018 Plan")	January 2019	10 years	(Note iii)

Note i: Options are vested at different rates according to years worked as of 31 December 2017. The rates are shown as follows:

Years worked as of 31 December 2017	Vesting rates					
	1st year	2nd year	3rd year	4th year	5th year	6th year
Within 3 years	5%	10%	15%	20%	25%	25%
Between 3 and 4 years	10%	15%	20%	25%	30%	–
Between 4 and 5 years	15%	20%	20%	20%	25%	–
Over 5 years	25%	25%	25%	25%	–	–

Note ii: Options are vested at different rates according to years worked as of 31 December 2018. The rates are shown as follows:

Years worked as of 31 December 2018	Vesting rates					
	1st year	2nd year	3rd year	4th year	5th year	6th year
Within 3 years	5%	10%	15%	20%	25%	25%
Between 3 and 4 years	10%	15%	20%	25%	30%	–
Between 4 and 5 years	15%	20%	20%	20%	25%	–
Over 5 years	25%	25%	25%	25%	–	–

Note iii: The options are vested at different rates conditional on achievement of certain performance conditions.

26 SHARE-BASED PAYMENTS (cont'd)**(b) Employee stock options** (cont'd)

(ii) Set out below are summaries of options granted:

	Year ended 31 December			
	2023		2022	
	Average exercise price per stock option (in USD)	Number of share options (thousand shares)	Average exercise price per stock option (in USD)	Number of share options (thousand shares)
As at beginning of the year	USD0.29	8,665	USD0.29	9,855
Exercise of share options	USD0.29	–	USD0.29	–
Forfeited during the year	USD0.29	(846)	USD0.29	(1,190)
As at year end	USD0.29	7,819	USD0.29	8,665
Vested and exercisable at end of year	USD0.29	7,544	USD0.29	7,079

There were no options expired during the current year (2022: same).

(c) Restricted share award scheme

(i) The Group's employee restricted share award scheme is as follows:

Type of arrangement	Grant date	Contract period	Vesting conditions
Employee restricted shares – 2020 ("2020 Plan")	May 2020	10 years	(Note i)
Employee restricted shares – 2021 ("2021 Plan")	December 2021	10 years	(Note ii)
Employee restricted shares – 2022 ("2022 Plan")	November 2022	10 years	(Note ii)

Note i: On 8 November 2019, pursuant to the resolution passed by the shareholders on 30 September 2019, 342,557,624 shares were allotted and issued without payment and as fully paid shares to existing shareholders ("Capitalization Issue"). Since restricted shares issued and allotted in May 2020 were to compensate participants of the employee stock options arrangement for the dilutive effect of the Capitalization Issue, the vesting conditions of employee restricted share award scheme were same with the employee stock options arrangements set out in Note 26(b).

Note ii: The restricted shares are vested in tranches conditional on achievement of certain performance conditions.

26 SHARE-BASED PAYMENTS (cont'd)**(c) Restricted share award scheme** (cont'd)

(ii) Set out below are summaries of restricted shares granted:

	Year ended 31 December			
	2023		2022	
	Average exercise price per restricted shares (in USD)	Number of restricted shares (thousand shares)	Average exercise price per restricted shares (in USD)	Number of restricted shares (thousand shares)
As at beginning of the year	USD0.21	39,116	USD0.21	36,736
Granted during the year	—	—	USD0.08	7,558
Exercise of restricted shares	—	—	—	—
Forfeited during the year	USD0.17	(4,907)	USD0.20	(5,178)
As at year end	USD0.19	34,209	USD0.21	39,116
Vested and exercisable at end of year	USD0.25	20,600	USD0.27	17,412

There were no restricted shares expired during the current year (2022: Nil).

(d) The fair value of the stock options granted have been valued by an independent qualified valuer using binomial option-pricing model for 2017 Plan and 2018 Plan as at the grant date. Key assumptions are set as below:

	2017 Plan	2018 Plan
Risk-free interest rate	3.6306%-4.0004%	3.2260%-3.2634%
Expected term-year	6.66-6.84	7.27-7.36
Expected volatility	39.98%-42.22%	40.39%
Grant date option fair value per share	USD0.967-USD1.258	USD1.028-USD1.237
Exercise price	USD1.00	USD1.00

(e) The fair value of the restricted shares award scheme were equal to the market price of the Shares on the grant date.

	2021 plan	2022 plan
Grant date market price per share	HKD3.95	HKD2.59
Exercise price	HKD0.6	HKD0.6

(f) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognized during the year ended 31 December 2023 as part of employee benefit expenses are RMB10,643,000 (2022: RMB16,111,000).

27 DIVIDEND

No dividend has been paid or declared by the Company during the year (2022: Nil).

28 BORROWINGS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current		
– Unsecured and unguaranteed bank borrowings (Note (a))	41,600	75,500
Non-current		
– Unsecured and unguaranteed bank borrowings (Note (b))	302,685	212,133
	344,285	287,633

Note (a): As at 31 December 2023, bank loans will be repayable within one year and bear annual interest rate ranging from 2.85% to 2.95% (2022: from 3.80% to 4.00%).

Note (b): As at 31 December 2023, bank loans will be repayable over one year and bear annual interest rate ranging from 3.30% to 4.05% (2022: RMB212,133,000, from 3.80% to 4.25%). And it is used on construction of plant, production line and equipment and etc.

As at 31 December 2023, the Group has the following undrawn bank facilities:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Bank facilities	265,715	237,367

As at 31 December 2023 and 31 December 2022, the Group's bank borrowings were repayable as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 1 year	41,600	75,500
Between 1 and 2 years	94,730	7,294
Between 2 and 5 years	131,041	183,937
Over 5 years	76,914	20,902
	344,285	287,633

28 BORROWINGS (cont'd)

As at 31 December 2022 and 2023, the weighted average effective interest rates per annum were as follows:

	31 December 2023	31 December 2022
Bank borrowings	3.83%	3.89%

The carrying amounts of the Group's borrowings are denominated in RMB.

The fair values of borrowings equal to their carrying amounts as the discounting impact is not significant.

29 TRADE AND OTHER PAYABLES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Accrued promotion expenses	193,297	77,780
Payables for purchase of property, plant and equipment	42,859	12,072
Trade payables	35,710	25,983
Staff salaries and welfare payables	28,668	21,944
Tax payable	1,659	2,537
Deposits payables	800	15,502
Refund liabilities (Note (i))	170	5,987
Others	19,771	12,212
	322,934	174,017

Note (i): Where a customer has a right to return a product, the Group recognises a refund liability for the amount of consideration received for which the entity does not expect to be entitled. The Group also recognises a right to the returned goods measured by reference to the former carrying amount of the goods.

29 TRADE AND OTHER PAYABLES (cont'd)

As at 31 December 2023 and 2022, the ageing analysis of trade payables based on invoice date are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within 3 months	33,990	24,982
3 months to 6 months	1,287	724
6 months to 12 months	255	133
1 year to 2 years	178	76
2 years to 3 years	–	68
	35,710	25,983

The Group's trade and other payables are denominated in the following currencies:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
– RMB	320,984	171,865
– NTD	449	1,011
– HKD	101	586
– USD	1,400	555
	322,934	174,017

30 LEASE LIABILITIES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Minimum lease payments due		
– Within 1 year	1,176	1,619
– Between 1 and 2 years	210	346
	1,386	1,965
Less: future finance charges	(20)	(69)
Present value of lease liabilities	1,366	1,896

30 LEASE LIABILITIES (cont'd)

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within 1 year	1,172	1,551
Between 1 and 2 years	194	345
Present value of lease liabilities	1,366	1,896

The Group leases various properties and equipment and these lease liabilities were measured at net present value of the lease payments to be paid during the lease terms.

Extension options, at the Group's discretion, are included in a number of property leases across the Group.

Lease liabilities were discounted at incremental borrowing rates of the Group ranging from 4.76% to 4.90%.

For the total cash outflows for leases including payments of lease liabilities and payments of interest expenses on leases are disclosed in Note 17.

31 OTHER CURRENT AND NON-CURRENT LIABILITIES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current		
Deferred upfront payments (a)	4,717	4,717
Non-current		
Deferred upfront payments (a)	33,019	37,736
Government grant (b)	11,000	11,000
Deposits	10,031	10,031
	54,050	58,767

(a) Other current and non-current liabilities mainly contain non-refundable upfront fee relating to promotion service arrangement, which will be amortized during the service period.

(b) As at 31 December 2023, the government grants with total amount of RMB11,000,000 was recorded as deferred government grant with unfulfilled conditions. The grants will be credited to the profit or loss on a straight-line basis over the expected useful lives of the related assets or recognised in profit or loss over the period necessary to match them with the expense that they are intended to compensate after all conditions fulfilled.

32 CASH USED IN OPERATIONS**(a) Reconciliation of loss before income tax to net cash generated from operations**

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Loss before income tax	(37,756)	(50,046)
Adjustments for:		
– Depreciation and amortization (Notes 14, 15, 16 and 17)	43,028	38,039
– Provision for impairment of property, plant and equipment (Note 6)	7,154	–
– Losses on disposals of property, plant and equipment (Note 9)	3,420	2,359
– Share-based compensation expenses (Note 26)	10,643	16,111
– Interest on bank borrowings (Note 10)	5,068	6,487
– Interest income (Note 10)	(2,974)	(2,265)
– Interest on lease liabilities (Note 10)	107	115
– Share of net loss of the joint venture (Note 11)	2,495	6,633
– Fair value change on financial assets at FVPL	(937)	(912)
– Impairment losses on other receivables	4,614	–
– Impairment losses on long-term receivables of other non-current assets	7,185	–
– Provision for impairment of receivables and contract assets	(318)	597
	41,729	17,118
Changes in working capital:		
– Inventories (Note 19)	(31,188)	(65,263)
– Trade receivables and other receivables	(36,807)	(38,952)
– Prepayments and other current and non-current assets	22,604	63,950
– Contract assets (Note 5)	(45,742)	2,674
– Restricted cash	(1,375)	(2,998)
– Trade and other payables and other current and non-current liabilities (Note 29 and 31)	111,736	83,772
– Contract liabilities (Note 5)	(7,499)	(2,637)
	11,729	40,546
Net cash generated from operations	53,938	57,664

32 CASH USED IN OPERATIONS (cont'd)

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Net book amount (Note 14)	3,900	4,234
Loss on disposal of property, plant and equipment (Note 9)	(3,420)	(2,359)
Proceeds from the disposal	480	1,875

(c) Changes in liabilities from financing activities:

	Short-term liabilities		Long-term liabilities	
	Lease Liabilities RMB'000	Borrowings RMB'000	Lease Liabilities RMB'000	Borrowings RMB'000
At 1 January 2023	1,551	75,500	345	212,133
Cash flows	(2,438)	(44,500)	–	101,152
Interest expense	107	–	–	–
Disposal of right-of-use assets	(377)	–	(195)	–
Increase of right-of-use assets	2,180	–	193	–
Reclassification	149	10,600	(149)	(10,600)
At 31 December 2023	1,172	41,600	194	302,685
At 1 January 2022	1,463	146,191	1,136	59,775
Cash flows	(2,009)	(71,191)	–	152,858
Interest expense	115	–	–	–
Increase of right-of-use assets	1,056	–	137	–
Reclassification	928	500	(928)	(500)
Net exchange differences	(2)	–	–	–
At 31 December 2022	1,551	75,500	345	212,133

33 COMMITMENTS**(a) Capital commitments**

Capital expenditures contracted for at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Property, plant and equipment	82,600	120,668

(b) Operating lease commitments

At the balance sheet date, lease commitments of the Group for short-term leases and leases of low-value assets not yet commenced are as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
No later than 1 year	65	95
Later than 1 year and no later than 2 years	—	37
	65	132

(c) Investment commitment

The investment of the Group to the joint venture but not yet injected is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Huayao	—	26,250

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2023 and 2022, and balances arising from related party transactions as at 31 December 2023 and 2022.

(a) Name and relationship with related parties

Name of related party	Nature of relationship
Center Laboratories, Inc. ("Centerlab")	Entity having significant influence over the Company
Lumosa Therapeutics Co., Ltd. ("Lumosa")	Associate of Centerlab
Huayao	Joint venture of the Company (before 30 December 2023)

(b) Transactions with related parties

(i) Service revenue:

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Lumosa	—	2,534

(ii) Rental expenses charged by related parties:

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Lumosa	—	81

34 RELATED PARTY TRANSACTIONS (cont'd)**(b) Transactions with related parties** (cont'd)*(iii) Service expenses charged by related parties:*

	For the year ended 31 December	
	2023 RMB'000	2022 RMB'000
Huayao	6,733	—
Centerlab	106	—
	6,839	—

The related party transactions above were carried out on terms mutually agreed between the parties. In the opinion of the management of the Company, these transactions are in the ordinary courses of business of the Group and in accordance with the terms of underlying agreements.

(c) Balances with related parties*(i) Payables on rental expenses*

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Lumosa	—	14

(ii) Other receivables from related parties

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Huayao	—	680

34 RELATED PARTY TRANSACTIONS (cont'd)

(d) Leasing arrangements

(i) Rental payment:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Lumosa	—	81

(e) Key management compensation

Key management includes directors and senior management of the Company. The compensation paid or payable to key management for their services is shown below:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Salaries, wages and bonuses	16,544	11,866
Housing funds, medical insurance and other social insurance	1,034	543
Share-based compensation expenses	8,645	5,020
	26,223	17,429

Except for the directors mentioned in Note 8(a), the Company's other key senior management's remuneration includes salaries, wages, bonuses, housing funds, medical insurance and other social insurance and share-based compensation expenses. For the year ended 31 December 2023, the Company's other key senior management's remuneration was within the range from RMB1,000,000 to RMB3,000,000 (2022: RMB1,500,000 to RMB3,000,000).

35 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at year ended 31 December 2023 and 2022 are set out below:

Company name	Place of registration/ incorporation and place of operations and date of incorporation	Principle activities	Effective interests held by the Group		Direct or Indirect	Registered capital		Issued and paid up capital	
			2023	2022		2023	2022	2023	2022
TOT BIOPHARM Co., Ltd. * (東曜藥業有限公司)	Suzhou, PRC 5 July 2010	Research and development, Manufacturing and sales of new drugs	100%	100%	Direct	USD 277,600,000	USD 277,600,000	USD 277,600,000	USD 277,600,000
TOT BIOPHARM Company Limited (東源國際醫藥股份 有限公司)	Taipei, Taiwan 14 March 2016	Business development	100%	100%	Direct	NTD 400,000,000	NTD 400,000,000	NTD 230,000,000	NTD 230,000,000
Shengyang Biopharm (Hong Kong) Limited (昇洋醫藥國際有限公司)	Hong Kong 24 June 2008	Investing company	100%	100%	Direct	USD 5,906,415	USD 5,906,415	USD 5,906,415	USD 5,906,415
Dongyuan Biotech (Shanghai) Co., Ltd. * (東源生物醫藥科技(上海) 有限公司)	Shanghai, PRC 14 April 2010	Research and development New drugs	100%	100%	Indirect	USD 3,730,000	USD 3,730,000	USD 730,000	USD 730,000
Jiang Su Tung Yang Biopharm Tech Co., Ltd.* (江蘇東揚醫藥科技 有限公司)	Taizhou, PRC 11 February 2009	Research and development And sales of new drugs	100%	100%	Indirect	USD 2,000,000	USD 2,000,000	USD 2,000,000	USD 2,000,000
Yaozhan Pharmaceutical Jiangsu Co., Ltd.* (曜展醫藥江蘇有限公司) (Note 25)	Suzhou, PRC 13 May 2021	Marketing promotion	100%	82.46%	Direct	USD 2,850,000	USD 2,850,000	USD 2,850,000	USD 2,850,000

* Registered as wholly foreign owned enterprises under PRC law.

The nature of all the legal entities established in the mainland of China is limited liability company.

The English names of Taiwan and PRC companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies, as no English names have been registered.

36 BALANCE SHEET OF THE COMPANY

		As at 31 December	
	Note	2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		2,066,072	2,052,053
Current assets			
Other receivables		58	478
Amounts due from subsidiaries		67,809	58,797
Prepayments		34	24
Cash and cash equivalents		21,339	40,538
		89,240	99,837
Total assets		2,155,312	2,151,890
EQUITY			
Share capital	24	2,297,499	2,297,499
Other reserves		72,155	59,294
Accumulated losses		(215,640)	(206,226)
Total equity		2,154,014	2,150,567
LIABILITIES			
Current liabilities			
Trade and other payables		1,298	1,323
Total liabilities		1,298	1,323
Total equity and liabilities		2,155,312	2,151,890
Net current assets		87,942	98,514
Total assets less current liabilities		2,154,014	2,150,567

The balance sheet of the Company was approved by the Board of Directors on 15 March 2024 and was signed on its behalf.

Mr. Liu, Jun
Director

36 BALANCE SHEET OF THE COMPANY (cont'd)

(a) Reserve movement of the Company

		Attributable to equity holders of the Company			
		Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2023		2,297,499	59,294	(206,226)	2,150,567
Loss for the year		–	–	(9,414)	(9,414)
Other comprehensive loss		–	2,218	–	2,218
Total comprehensive loss		–	2,218	(9,414)	(7,196)
Transactions with owners					
Share-based compensation expense	26	–	10,643	–	10,643
Total transactions with owners		–	10,643	–	10,643
Balance at 31 December 2023		2,297,499	72,155	(215,640)	2,154,014
Balance at 1 January 2022		1,892,906	37,021	(195,462)	1,734,465
Loss for the year		–	–	(10,764)	(10,764)
Other comprehensive loss		–	6,162	–	6,162
Total comprehensive loss		–	6,162	(10,764)	(4,602)
Transactions with owners					
Share-based compensation expense	26	–	16,111	–	16,111
Contributions of equity, net of transaction costs and tax	24	404,593	–	–	404,593
Total transactions with owners		404,593	16,111	–	420,704
Balance at 31 December 2022		2,297,499	59,294	(206,226)	2,150,567

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

37.1 Subsidiaries and jointly controlled entities

(a) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) *Jointly controlled entities*

Jointly controlled entities are joint ventures that involve the establishment of corporation in which the Group and other venturers have their respective interests. The jointly controlled entities operate in the same way as other entities, except that a contractual agreement between the Group and other venturers established joint control and none of the participating parties has unilateral control over the economic activity of the jointly controlled entities. Investments in jointly controlled entities are accounted for using the equity method of accounting.

37.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

37.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

37.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is United States Dollars ("USD"). However, the consolidated financial statements are presented in RMB as the major operations of the Group are within the PRC (unless otherwise stated).

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.4 Foreign currency translation (cont'd)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within 'other income and losses – net'.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (ii) Income and expenses for each statement of comprehensive loss are translated at average exchange rates of that period; and
- (iii) All resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

37.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs incurred during the construction period are capitalized.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive loss during the period in which they are incurred.

Construction in progress represents unfinished construction and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.5 Property, plant and equipment (cont'd)

The assets' residual values representing 5% of the original cost, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in profit or loss.

37.6 Investment properties

Investment properties, principally comprising buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise. The gain or loss on disposal of investment property is calculated as the difference between the net disposal proceeds and the carrying amount at the date of disposal.

37.7 Intangible assets

(a) Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- (i) it is technical feasible of completing the intangible assets so that it will be available for use;
- (ii) management intends to complete the software and use or sell it;
- (iii) the ability to use or sell the intangible assets;
- (iv) it can be demonstrated how the software will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- (vi) the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.7 Intangible assets (cont'd)

(b) Research and development expenditures

The Group incurs significant costs and efforts on research and development activities, which include expenditures on biosimilar and oncology drug. Research expenditure and development expenditure that do not meet the criteria in (a) above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(c) Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

Software	3-5 years
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37.8 Impairment of non-financial assets

Assets that are subject to depreciation or amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

37.9 Investments and other financial assets

37.9.1 Classification

The Group classifies its financial assets in the following measurement categories:

- (i) Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- (ii) Those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.9 Investments and other financial assets (cont'd)

37.9.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

37.9.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'other income and losses – net' together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'other income and losses – net'. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses and impairment expenses are presented as separate line item in the statement of profit or loss.

Fair value through profit or loss ("FVPL"): Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within 'other income and losses – net', in the period in which it arises.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.9 Investments and other financial assets (cont'd)

37.9.3 Measurement (cont'd)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in 'other income and losses – net' when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in 'other income and losses – net' in the consolidated statement of comprehensive loss as applicable.

37.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

37.11 Impairment of financial assets

The Group has three types of financial assets subject to HKFRS 9's expected credit loss model:

- (a) trade receivables
- (b) contract assets, and
- (c) other receivables.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

37.12 Inventories

Inventories including raw materials, work in progress, finished goods and consumables are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES *(cont'd)*

37.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within one year and therefore all classified as current.

Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

37.14 Prepayments

Prepayments which are generally due for transfer to expense within one year or less and therefore are all classified as current assets.

Prepayments may include upfront cash payments made to contract research organizations ("CROs"), which are organizations that provide support to the pharmaceutical, biotechnology, and medical device industries in the form of research services outsourced on a contract basis. Prepayments to CROs will be subsequently recorded as research and development expenses in accordance with the applicable performance requirements.

37.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

37.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Trade and other payables are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

37.17 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.18 Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

37.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.19 Current and deferred income tax (cont'd)

(b) *Deferred income tax (cont'd)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

37.20 Employee benefit expenses

(a) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(b) *Pension obligations*

Full-time employees in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no further payment obligation for post-retirement benefits beyond the contributions made.

TOT BIOPHARM Company Limited ("TOT Taipei"), a subsidiary of the Company, has established a defined contribution pension plan under the Labour Pension Act, covering all regular Taiwan employees. Under the plan, the Group contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labour Insurance.

Contributions to the plan are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves.

(c) *Housing funds, medical insurance and other social insurance*

Employees in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plans. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable.

(d) *Bonus plan*

The expected cost of bonus is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.20 Employee benefit expenses (cont'd)

(e) *Employee leave entitlement*

Employee entitlement to annual leave are recognized when they have accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlement to sick leave and maternity leave is not recognized until the time of leave.

37.21 Share-based compensation benefits of the Group

(a) *Equity-settled share-based payment transaction*

The Group operates stock options and restricted shares granted to employees, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of equity instruments (options) is recognized as an expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- (i) including any market performance conditions;
- (ii) excluding the impact of any service and non-market performance vesting conditions;
- (iii) including the impact of any non-vesting conditions (for example, the requirement for employees to serve).

At the end of each reporting period, the Group revises its estimates of the number of options and restricted shares that are expected to vest based on the non-market vesting performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period.

(b) *Share-based payment transaction among group entities*

The grant by the Company of options and restricted shares over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiaries undertakings, with a corresponding credit to equity in separate financial statements of the Company.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.22 Government grants

Government grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions. Government grants related to costs are recognized in the consolidated statement of comprehensive loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

37.23 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

37.24 Leases as lessee

The Group leases properties and land use right in the PRC as lessee. Rental contracts of properties are typically made for fixed periods of 2 to 5 years but may have extension options as described below. Land use right is made for fixed periods of 50 years.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The consideration paid to lease the state-owned or collectively-owned land in the PRC are treated as prepayment for land use rights and included in right-of-use assets, which are stated at cost less accumulated amortization and impairment loss, if any. Land use rights are amortized over the lease period using straight-line method.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (cont'd)

37.24 Leases as lessee (cont'd)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the followings:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statement of comprehensive loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise equipment and small items of office furniture.

Extension options are only included in the lease term if the lease is reasonably certain to be extended. The Group determine the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES *(cont'd)*

37.25 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in 'other income and losses – net'.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

37.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's directors or shareholders, where applicable.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	2023 RMB'000	For the year ended 31 December			
		2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	780,629	442,178	76,325	22,491	45,308
Operating loss	(33,060)	(39,076)	(259,700)	(288,672)	(269,604)
Loss before income tax	(37,756)	(50,046)	(261,216)	(288,498)	(299,300)
Loss for the year and attributable to the equity holders of the Company	(37,757)	(49,916)	(261,216)	(288,498)	(299,300)
Total comprehensive loss for the year and attributable to the equity holders of the Company	(36,020)	(43,602)	(262,172)	(291,752)	(313,230)

CONSOLIDATED ASSETS AND LIABILITIES

	2023 RMB'000	As at 31 December			
		2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Non-current assets	732,926	585,234	404,300	391,956	402,999
Current assets	693,175	676,797	305,963	249,227	614,363
Total assets	1,426,101	1,262,031	710,263	641,183	1,017,362
Non-current liabilities	356,929	271,245	114,364	6,083	12,299
Current liabilities	382,486	275,347	260,808	52,743	146,786
Total liabilities	739,415	546,592	375,172	58,826	159,085
Total equity/(deficit)	686,686	715,439	335,091	582,357	858,277

DEFINITIONS

"ADC"	antibody-drug conjugate
"AGM"	the annual general meeting of the Company to be held in June 2024
"Amended and Restated Articles of Association"	the amended and restated articles of association of the Company which were adopted on 30 September 2019 and became effective on 28 October 2019
"Board"	the board of Directors of the Company
"CDMO"	contract development and manufacturing organization, which is a pharmaceutical company that develops and manufactures drugs for other pharmaceutical companies on a contractual basis
"Centerlab"	Center Laboratories Inc. (晟德大藥廠股份有限公司), a company incorporated in Taiwan with limited liability on 4 November 1959 whose shares are listed on the Taipei Exchange (stock code: 4123)
"CG Code"	the Corporate Governance Code contained in Appendix C1 to the Listing Rules
"CMO"	contract manufacturing organization, which is a pharmaceutical company that manufactures drugs for other pharmaceutical companies on a contractual basis
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	TOT BIOPHARM International Company Limited (東曜藥業股份有限公司) (formerly known as TOT BIOPHARM International Company Limited (東源國際醫藥股份有限公司)), a company incorporated in Hong Kong with limited liability on 4 December 2009 whose Shares are listed on the Stock Exchange (stock code: 1875)
"CRO"	contract research organization, which is a pharmaceutical company that conducts research for other pharmaceutical companies on a contractual basis
"date of this report"	15 March 2024, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
"Director(s)"	the director(s) of the Company
"EU"	the European Union
"GMP"	good manufacturing practice

DEFINITIONS

"Group", "we", "us" or "TOT BIOPHARM"	the Company and its subsidiaries
"HK\$" or "HKD"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKAS(s)"	Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKFRS(s)"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huayao"	Huayao Pharmaceutical (Suzhou) Company Limited (華曜醫藥(蘇州)有限公司), a company incorporated in the PRC with limited liability on 23 November 2021, which was an associate of the Company and a joint venture of the Group before the cancellation of its business registration on 30 December 2023
"IND"	investigational new drug application
"IPO" or "Global Offering"	the initial public offering of the Company which was completed on the Listing Date
"Listing Date"	8 November 2019, the date on which the Shares were listed on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Lumosa"	Lumosa Therapeutics Co., Ltd. (順天醫藥生技股份有限公司), a company incorporated in Taiwan with limited liability on 13 November 2000 whose shares are listed on the Taipei Exchange (stock code: 6535), which is an associate of Centerlab
"mAb"	monoclonal antibody
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules
"NMPA"	the National Medical Products Administration of the PRC
"NTD"	New Taiwan dollar(s), the lawful currency of Taiwan

DEFINITIONS

"PRC" or "China"	the People's Republic of China, excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Pre-IPO Share Option(s)"	the share option(s) granted under the Pre-IPO Share Option Scheme
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company on 20 February 2013 and subsequently amended on 11 December 2017, 20 December 2018, 12 March 2019, 16 April 2019 and 22 July 2019, details of which are disclosed on pages V-36 to V-47 of the Prospectus and in the section headed "Directors' Report – Pre-IPO Share Option Scheme" of this annual report
"Prospectus"	the prospectus dated 29 October 2019 published by the Company
"QP"	Qualified Person
"R&D"	research and development
"RMB"	Renminbi, the lawful currency of the PRC
"Restricted Award Share(s)"	the Share(s) granted under the Restricted Share Award Scheme and allotted and issued (or to be allotted and issued) to the trustees thereunder
"Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 29 May 2020 and subsequently amended on 29 July 2020, 23 December 2021, 1 November 2022 and 31 December 2022, details of which are disclosed on pages 8 to 21 of the Company's circular dated 3 August 2020, in its announcements dated 23 December 2021 and 1 November 2022 and in the section headed "Directors' Report – Restricted Share Award Scheme" of this annual report
"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 share(s) of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriptions"	the allotment and issue of Shares by the Company to Centerlab and Vivo Suzhou Fund, which was announced on 31 May 2022 and completed on 29 July 2022
"Taipei Exchange"	Taipei Exchange (證券櫃檯買賣中心) in Taiwan

DEFINITIONS

"TOT Suzhou"	TOT BIOPHARM Co., Ltd. (東曜藥業有限公司), a company incorporated in the PRC with limited liability on 5 July 2010, which is a wholly-owned subsidiary of the Company
"United States" or "US"	the United States of America
"US\$" or "USD"	United States dollar(s), the lawful currency of the United States
"Vivo Capital Fund VIII" or "Vivo Capital Fund VIII, L.P."	Vivo Capital Fund VIII, L.P., a limited partnership organized in the State of Delaware of the United States on 17 December 2014, which is a Shareholder
"Vivo Suzhou Fund"	Vivo (Suzhou) Health Industry Investment Fund (Limited Partnership) (維梧(蘇州)健康產業投資基金(有限合夥)), a limited partnership organized in the PRC on 26 November 2021, which is a Shareholder
"Yaozhan"	Yaozhan Pharmaceutical Jiangsu Co., Ltd. (曜展醫藥江蘇有限公司), a company incorporated in the PRC with limited liability on 13 May 2021, which is a wholly-owned subsidiary of the Company

In this annual report, the terms "associate(s)", "close associate(s)", "connected person(s)", "connected transaction(s)", "continuing connected transaction(s)", "controlling shareholder(s)", "subsidiary(ies)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.