Hua Medicine
華領醫藥

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2552

Annual Report 2021

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CORPORATE INFORMATION

Executive directors

Li CHEN (陳力) *(Chief Executive Officer and Chief Scientific Officer)*
George Chien Cheng LIN (林潔誠) *(Executive Vice President and Chief Financial Officer)*

Non-executive directors

Robert Taylor NELSEN *(Chairman)*
Wei ZHAO (趙瑋) *(appointed on March 16, 2022)*
Lian Yong CHEN (陳連勇) *(resigned on March 16, 2022)*

Independent non-executive directors

Walter Teh-Ming KWAUK (郭德明)
William Robert KELLER
Junling LIU (劉峻嶺)
Yiu Wa Alec TSUI (徐耀華)

Audit committee

Walter Teh-Ming KWAUK (郭德明) *(Chairman)*
William Robert KELLER
Yiu Wa Alec TSUI (徐耀華)

Remuneration committee

William Robert KELLER *(Chairman)*
Walter Teh-Ming KWAUK (郭德明)
Junling LIU *(劉峻嶺) (appointed on March 16, 2022)*
Lian Yong CHEN (陳連勇) *(ceased to be a member on March 16, 2022)*

Nomination committee

Robert Taylor NELSEN *(Chairman)*
Junling LIU (劉峻嶺)
William Robert KELLER

Strategy committee

Li CHEN (陳力) *(Chairman)*
Robert Taylor NELSEN
Junling LIU (劉峻嶺)

Company secretary

Wing Yan Winnie YUEN (袁頴欣)

Authorized representatives

George Chien Cheng LIN (林潔誠)
Wing Yan Winnie YUEN (袁頴欣)

Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Registered Office

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

Corporate headquarters

Hua Medicine, Building 2, Lane 36, Xuelin Road, Pudong New Area, Shanghai 201203, PRC

Principal place of business in Hong Kong

Suite 2202, Methodist House, 36 Hennessy Road, Wan Chai, Hong Kong

Cayman Islands share registrar

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

Hong Kong share registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Principal bankers

In Hong Kong:

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building, 1 Queen's Road Central, Hong Kong

In the PRC:

China Construction Bank Corporation Shanghai Zhangjiang Branch
No. 232 Ke Yuan Road, Shanghai, China

China Merchants Bank Corporation Shanghai Lingang Land of Wonder Sub-Branch
No. 271, Yunying Road, Lingang District, Shanghai

Company's website

www.huamedicine.com

Stock code

2552

BUSINESS AND FINANCIAL HIGHLIGHTS

Business highlights

- In March 2021, we submitted a new drug application ("NDA") for dorzagliatin for the treatment of Type 2 diabetes ("T2D") to the National Medical Products Administration of the People's Republic of China (the "NMPA"), and we received notification from the NMPA that our NDA was accepted in April 2021. The NDA is currently under active review by the NMPA.

- In September 2021 at the 6th China BioMed Innovation and Investment Conference, select principal investigators from our SEED Phase III trial presented the results from the extensive clinical study called DREAM. The main objective of the DREAM study was to evaluate the ability of T2D patients who participated in our SEED Trial and achieved glycemic control as defined by investigators, to maintain normal to near-normal HbA1c levels (i.e., remission of T2D), without any glucose-lowering medication after the completion of the SEED Trial for a minimum follow-up period of 52-weeks. The results showed that the subjects had a 52-week diabetes remission rate of 65.2% (applying the Kaplan-Maier methodology) during the research period.

- We presented data from our 52-week SEED and DAWN Phase III registration trials, as well as Phase I trial HMM0112 of dorzagliatin in combination with empagliflozin (a SGLT-2 inhibitor) at the 2021 American Diabetes Association's Scientific Sessions, demonstrating glucose control benefit using the combination of dorzagliatin and empagliflozin.

- We presented additional data from our Phase I trial HMM0111 of dorzagliatin in combination with sitagliptin (a DPP-IV inhibitor) at the 2021 American Diabetes Association's Scientific Sessions, demonstrating that dorzagliatin regulates GLP-1 secretion and providing additional benefit in glucose control in T2D patients in the United States.

- In anticipation of dorzagliatin commercialization, we continue to work with Bayer, our commercialization partner in China, on launch strategy and commercialization preparation.

- In September 2021, we entered into a strategic agreement with Sinopharm Group Co., Ltd. (Hong Kong Stock Code: 1099), to cooperate in logistics warehousing, supply chain management and channel data analysis, and to jointly promote the commercialization of dorzagliatin for its anticipated market launch in China.

- In October 2021, we enhanced our existing collaboration with WuXi STA for the commercial supply of dorzagliatin by entering into an expanded agreement with WuXi STA, and for which we held a signing ceremony and announced the agreement in February 2022.

- We established Hua Medicine drug manufacturing company at Shanghai Lingang Special Area for ensuring adequate dorzagliatin commercial supply, and we also secured land for the construction of a manufacturing facility.

- We continue to make filings and applications regarding IP rights globally around our discoveries in glucokinase, including for fixed dose combinations with dorzagliatin, as well as a second generation glucokinase activator.

Financial highlights

- Cash position was approximately RMB675.2 million as of December 31, 2021

- Total expenditures incurred by the Company for the year ended December 31, 2021 was approximately RMB327.2 million, of which approximately RMB186.8 million was research and development expenses

- For the year ended December 31, 2021, research and development expenses decreased by approximately RMB34.1 million or approximately 15% to approximately RMB186.8 million

- For the year ended December 31, 2021, loss before tax decreased by approximately RMB67.4 million or approximately 17% to approximately RMB325.7 million

- For the year ended December 31, 2021, total comprehensive expense for the year decreased by approximately RMB68.3 million or approximately 17% to approximately RMB325.3 million

CHAIRMAN AND CEO STATEMENT

Dear Shareholders,

In 2021, our efforts focused primarily on transforming Hua Medicine from a pure China-based research and development biotechnology company (focused on advancing breakthrough innovative medicines) to a company preparing for the commercialization of dorzagliatin, our global first-in-class oral anti-diabetes drug candidate. In March 2021, against the backdrop of the global pandemic, we submitted our dorzagliatin new drug application (NDA) to China's National Medical Products Administration (NMPA) and in April 2021 we received notification from the NMPA that our application had been accepted. The NMPA and its various related agencies are actively reviewing our application and we anticipate new drug approval for dorzagliatin in China this year.

We are also very proud and heartened by the breakthrough results of the DREAM Study announced in September 2021. The DREAM Study, involved observing, among other metrics, HbA1c levels of subjects who had previously participated in our Phase III SEED Trial and were no longer taking dorzagliatin over a 52-week post-study follow-up period: The DREAM Study indicated a 65.2% diabetes remission rate (applying the Kaplan-Maier methodology) for these non-medicated subjects over the post-study follow-up period. Since insulin's discovery over 100 years ago, only significant weight loss trials (e.g., DiRECT Study), bariatric surgery, intensive insulin therapy studies conducted in China and now dorzigliatin have demonstrated potential remission among Type 2 diabetes subjects. We believe these results validate our decision to focus on one of the few validated underlying contributors of diabetes: impairment of the glucose-sensor enzyme, glucokinase. Looking forward, we are excited by the prospects of studying the benefits of remission for Type 2 diabetes patients and the anticipated mitigation, prevention or delay of complications associated with Type 2 diabetes. Once dorzagliatin is approved, we expect to accelerate these activities and will seek to make dorzagliatin available initially to China's large population and eventually to others worldwide.

Our commercialization efforts continue in earnest. We are partnering with Bayer to commercialize and promote dorzagliatin in China following NMPA approval. In September 2021, we entered into supply chain, logistics arrangement with Sinopharm Group, and we deepened our commercial supply and manufacturing relationship with WuXi STA in October 2021. Finally, in 2021, we secured land from the Shanghai municipal government in the Shanghai Lingang Special Area. This land acquisition positions us to construct, in time, our own manufacturing plant to ensure adequate commercial supply of dorzagliatin to meet anticipated demand and to better improve related financial metrics.

In June 2021, the Chinese government adopted the fourth amendment to the Chinese Patent Law, extending patent terms for select pharmaceutical patents covering first-in-class drugs in China. Upon NDA approval for dorzagliatin, we plan to apply to extend its patent term in China, which, if granted, could extend dorzagliatin's market exclusivity in China through 2034.

Key scientific results and presentations we announced in 2021:

1. In June 2021, the 52-week data of our two Phase III registration clinical trials, the SEED trial (dorzagliatin monotherapy trial) and the DAWN trial (dorzagliatin combined with metformin) was presented at the 2021 ADA Annual Scientific Sessions. We observed a 45% HbA1c control rate in patients that participated in both trials. At the 2021 ADA Annual Scientific Sessions, we also reported data of the clinical trial HMM0112 (dorzagliatin in combination with empagliflozin) and HMM0111 (dorzagliatin in combination with sitagliptin), demonstrating that dorzagliatin regulates secretion of endogenous GLP-1.

2. In September 2021, the results of the DREAM study were presented at the 6th China BioMed Innovation and Investment Conference (held in Suzhou, China) which showed that dorzagliatin had beneficial effect in diabetes remission. The DREAM study is an investigator-initiated extension and observational study of our Phase III SEED study. The subjects had a 52-week diabetes remission rate of 65.2% (applying the Kaplan-Maier methodology) at week 52, with no-drug intervention after completion of 52-week or 28-week treatment of dorzagliatin in SEED study and HbA1c level was maintained below 7% after the 52-week follow-up period.

Looking forward to 2022, we are focused on securing NMPA drug approval for dorzagliatin with a desirable drug label, followed by commercialization in China in partnership with Bayer. We will also be evaluating the optimal timing for inclusion of dorzagliatin into China's National Reimbursement Drug List (NRDL), and advancing efficiencies and enlarging capacity for manufacturing dorzagliatin supplies. Each of these efforts is focused on maximizing sales and profits from commercializing dorzagliatin in China. In addition, we continue to mobilize resources to explore dorzagliatin in Type 1 diabetes subjects and to advance a second generation once-daily glucokinase activator. For markets outside of China, we currently plan to advance our fixed-dose combination candidates and our second generation GKA candidate. We will also devote considerable resources to enhance and expand our IP rights worldwide.

We are excited about 2022 as Hua Medicine transitions into a commercialization company and approaches the launch of our global first-in-class dorzagliatin in China. As always, our successes are the combined effort of the Hua Medicine team, our partners and shareholders. We would like to express our deep appreciation to you all.

Thank you.

Robert Nelsen	**Li Chen**
Chairman	*CEO, Founder and CSO*

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

We are a pre-revenue China-based drug development company currently focusing on the development of dorzagliatin, a first-in-class oral drug for the treatment of T2D. We filed an Investigational New Drug ("**IND**") application with the NMPA for dorzagliatin under Category 1.1 (New Drug) in 2012 and initiated a Phase Ia clinical study of our novel glucokinase activator dorzagliatin in September 2013. We also filed an IND application with the U.S. Food and Drug Administration ("**FDA**") for dorzagliatin in March 2015. We have completed eight Phase I trials in China, four Phase I trials in the United States, one Phase II trial in China, and two Phase III trials in China. Our two Phase III trials enrolled 1,230 patients across 110 sites throughout China. Both Phase III trials (also known as the SEED and DAWN trials) met their primary endpoints, and the safety and tolerability profile of dorzagliatin was good during the trial period. The final 52-week results of both Phase III trials were announced and published in 2020. In March 2021, we submitted a NDA for dorzagliatin for the treatment of T2D to the NMPA, and we received notification from the NMPA that our NDA was accepted in April 2021. The NDA is currently under active review by the NMPA.

In September 2021 at the 6th China BioMed Innovation and Investment Conference, select principal investigators from our SEED Phase III trial presented the extensive results from the clinical study called DREAM. The main objective of the DREAM study was to evaluate the ability of T2D patients who participated in our SEED Study and achieved glycemic control as defined by investigators, to maintain normal to near-normal HbA1c levels[1] (i.e., remission of T2D), without any glucose-lowering medication after the completion of the SEED study for a minimum follow-up period of 52-weeks. The results showed that the subjects had a 52-week diabetes remission rate of 65.2% at week 52 (95% CI, 53.4%, 77.0%)[2] during the research period.

As we continue to progress with our development of our lead candidate, dorzagliatin, we are also moving forward with preparations for the drug's life cycle management for expansion of patient population and entering into new indications. We filed applications, and secured patents for fixed dose combinations of dorzagliatin with select approved oral anti-diabetes therapies. We have also initiated preclinical development and filed patent applications globally for a second generation glucokinase activator, based on our experience and insights gained in working with dorzagliatin.

We also continue to move forward with our collaboration with the leading diabetes partner in China, Bayer, in preparation of the commercial launch of dorzagliatin in China. In September 2021, we entered into a strategic agreement with Sinopharm Group Co., Ltd. (Hong Kong Stock Code: 1099), to cooperate in logistics warehousing, supply chain management and channel data analysis, and to jointly promote the commercialization of dorzagliatin for its expected market launch in China.

In addition to our development and commercialization efforts with dorzagliatin, we also continue to develop various other compounds, currently in the pre-clinical stage. One is focused on mGLUR5 for Parkinson's disease levodopa-induced dyskinesia, and the other is a fructose kinase inhibitor for metabolic disease.

We continue to work closely with and supervise our contract research organizations (CROs), clinical site management operators (SMOs) and contract manufacturing organizations (CMOs), who provide us with a range of services at a consistently high level of quality.

1 HbA1c levels< 7.0%.

2 Calculated using the Kaplan-Meier methodology.

To date, except for the RMB300 million upfront payment we received from Bayer in exchange for certain commercialization rights in mainland China as contract liabilities, we have not yet generated any revenue from the sale of goods or from the rendering of services, recognizing only limited income in the form of government grants and interest income. As of December 31, 2021, we expect to incur significant losses for the foreseeable future with no product revenues prior to obtaining marketing approval for dorzagliatin from the NMPA and commercializing dorzagliatin.

Cautionary Statement required under Rule 18A.08(3) of the Listing Rules: We may not be able to ultimately develop and market our dorzagliatin successfully.

Product pipeline

Set out below are the key stages of our product candidates under development:

Product Name	Indication	Development phase	Pre-clinical	IND	Phase I	Phase II	Phase III	NDA
Dorzagliatin HMS5552	T2D	NDA Filed (China)						
	DKD	Phase I enabling						
	T1D	IND-enabling						
HMSFDC 6857 Dorzagliatin + Metformin	T2D	Phase I ready						
HMSFDC 6868 Dorzagliatin + Sitagliptin	T2D	Phase I ready						
	Insulin Sparing	IND-enabling						
HMSFDC 5868 Dorzagliatin + Empagliflozin	T2D CVR	Phase I ready						
HMSFDC 5688 Dorzagliatin + Pioglitazone	NASH	IND-enabling						
HMS 5678 Dorzagliatin + GLP-1	Alzheimer Disease	IND-enabling						
HMS 6789 Dorzagliatin + Insulin	Late StageT2D	IND-enabling						
	T1D	IND-enabling						
mGLUR5 NAM	PD-LID	Pre-clinical						
Fructose Kinase Inhibitor	Metabolic Disease	Pre-clinical						
2nd Generation GKA	Metabolic Disease	Pre-clinical						

Business outlook

At present, the NDA for dorzagliatin is under active review by the NMPA, and we are actively working to obtain approval for our NDA as soon as possible. If approved, we plan to commercialize dorzagliatin in China with our partner, Bayer, to seek entry into the National Reimbursement Drug List (the "**NRDL**"), and to expand its use as a cornerstone treatment for T2D as monotherapy or in combination with other approved antidiabetic drugs. We also plan to publicize the results of our SENSITIZE Trial in 2022, and are planning to initiate clinical trials in the United States for Type 1 diabetes with dorzagliatin. We are also advancing development of our fixed dose combinations with dorzagliatin, as well as our second generation glucokinase activator.

Key events after the Reporting Period

Save as disclosed above, there are no important events that have occurred up to the date of this report.

Financial review

Other income

Our other income consisted primarily of bank interest income, government grants and rental concession. Our other income decreased by RMB4.0 million to RMB11.9 million for the year ended December 31, 2021 from RMB15.9 million for the year ended December 31, 2020, which was mainly attributable to a decrease of RMB2.2 million in government grants and a decrease of RMB2.5 million in rental concessions for the year ended December 31, 2021, adjusted for an increase of RMB0.7 million in bank interest income from short-term time deposits. We received RMB5.5 million government grants and RMB0.3 million rental concession from the local governments for research and development and operating activities for the year ended December 31, 2021 and recognized other income of RMB1.0 million from deferred revenue which we received in the past.

Other gains and losses

Our other gains and losses consisted primarily of gains or losses due to fluctuations in the exchange rates between the Renminbi and the U.S. dollar and between the Renminbi and the HK dollar. Our other gains and losses decreased by RMB31.4 million to a loss of RMB10.4 million in the year ended December 31, 2021 from a loss of RMB41.8 million in the year ended December 31, 2020, which was mainly attributable to foreign exchange losses in connection with bank balances and cash denominated in U.S. dollars and HK dollars and the small depreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2021, compared to the large depreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2020.

Our business mainly operates in the PRC, and most of our transactions are settled in Renminbi. Since inception, we have financed our business principally through equity financings, with related proceeds denominated in U.S. dollars, HK dollars and Renminbi. We converted a portion of those U.S. dollar proceeds to Renminbi, with the remaining amounts reserved for additional conversions to Renminbi as needed. Conversion of our assets and liabilities for financial statement presentation purposes exposes us to currency-related gains or losses and the actual conversion of our U.S. dollar and HK dollar denominated cash balances (including the HK dollar proceeds received from the Global Offering (comprising the Hong Kong public offering of 10,476,000 shares of the Company (the "Shares") and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company) (the "Global Offering") into Renminbi) will also expose us to currency exchange risk. We have not engaged in any foreign exchange hedging related activity.

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses decreased by RMB5.3 million to RMB134.8 million in the year ended December 31, 2021 from RMB140.1 million in the year ended December 31, 2020, which was mainly attributable to i) decrease in labour costs which was attributable to the decrease of RMB9.2 million in share-based payment under the accelerated amortization method, adjusted for an increase of RMB8.2 million in cash compensation, ii) decrease of RMB4.2 million in marketing and PR costs, mainly due to the digital program and national and regional congress conducted in the year of 2020 and less such cost in the year of 2021 under our marketing strategy, iii) decrease in consulting fee of RMB5.5 million mainly associated with the commercialization strategy consulting and legal service to realize qualified collaboration with Bayer in the year of 2020 and no such cost in the year of 2021, and iv) adjusted for the depreciation and amortization expense increase of RMB4.7 million, mainly due to the decoration and additional equipment purchased for our new headquarter.

Other expenses

Our other expenses consist of expense associated with a donation of RMB1.6 million (equivalent to USD250,000) for the year ended December 31, 2021 and RMB1.7 million (equivalent to USD250,000) for the year ended December 31, 2020 to establish the T2D research fund at the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania.

Finance cost

Our finance cost consisted of expenses associated with the interest on lease liabilities. Our finance cost was RMB4.0 million for the year ended December 31, 2021 as compared to RMB4.4 million for the year ended December 31, 2020, which was mainly attributable to the surrender of old offices after moving into our new headquarter at the end of 2020.

Research and development expenses

The following table sets forth the components of our research and development expenses for the year indicated.

	For the year ended December 31,			
	2021		2020	
	RMB'000	**%**	**RMB'000**	**%**
Dorzagliatin Clinical Trials	22,162	11.9%	79,964	36.2%
Dorzagliatin Non-clinical Studies	3,670	2.0%	3,996	1.8%
Chemical, Manufacturing and Control	31,288	16.7%	9,780	4.4%
Labor Cost	98,064	52.5%	110,133	49.9%
Dorzagliatin Licensing and Patent Fee	2,549	1.4%	5,189	2.3%
Others	29,102	15.5%	11,900	5.4%
Total	186,835	100.0%	220,962	100.0%

Research and development expenses decreased by RMB34.2 million to RMB186.8 million for the year ended December 31, 2021 from RMB221.0 million for the year ended December 31, 2020. The decrease in research and development expenses included:

- a decrease of RMB57.8 million for dorzagliatin clinical trials, which was primarily attributable to decreased costs associated with the last patient out of the 52-week study period of SEED/HMM0301 in March 2020 and DAWN/HMM0302 in September 2020;

- an increase of RMB21.5 million in chemical, manufacturing, and control (CMC) expenses, which was primarily attributable to the chemical and process research for our fructose kinase inhibitor candidates and manufacture-dynamic process validation batch production for our NDA approval conducted in the year of 2021;

- a decrease of RMB12.1 million for labor costs, which was primarily attributable to a decrease of share-based payment under the accelerated amortization method;

- a decrease of RMB2.6 million for dorzagliatin licensing and patent fee, which was primarily attributable to a Patent Cooperation Treaty (PCT) application for the fixed-dosed combination associated with dorzagliatin in the year of 2020 and no such cost in the year of 2021;

- an increase of RMB17.2 million for others, which was primarily attributable to the allocation of rental fee, depreciation and amortization expense, property costs, utility cost and other cost related to our new headquarter which came into operation at the end of 2020.

Income tax expense

We recognized no income tax expenses for the year ended December 31, 2021 and the year ended December 31, 2020.

Liquidity and capital resources

Since our inception, we have been in a net loss position with and net cash outflows from operations. Our primary use of cash is to fund our research and development activities. Our operating activities used RMB273.0 million for the year ended December 31, 2021. As of December 31, 2021, we had cash and cash equivalents of RMB675.2 million.

As of December 31, 2021, there were no significant investments held by the Company (including any investment in an investee company with a value of 5 per cent. or more of the Company's total assets as at 31 December 2021), nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Cash Operating Cost

The following table sets out the components of our cash operating cost for the years indicated:

	For the year ended December 31, 2021 RMB'000	2020 RMB'000
Research and development costs	159,904	161,388
Administrative costs		
– Workforce employment	50,500	48,094
– Others	62,577	111,424
	113,077	159,518
	272,981	320,906

Cash Flows

The following table provides information regarding our cash flows for the years ended December 31, 2020 and 2021:

	For the year ended December 31, 2021 RMB'000	2020 RMB'000
Net cash used in operating activities	(272,981)	(20,906)
Net cash used in investing activities	(68,219)	(14,086)
Net cash used in financing activities	(6,134)	(7,262)
Effect of exchange rate changes	(9,518)	(31,256)
Net change in cash and cash equivalents	(356,852)	(73,510)

Net Cash Used in Operating Activities

The primary use of our cash was to fund the development of our research and development activities, regulatory, and other clinical trial costs, and related supporting administration. Our prepayments and other current assets, accounts payable and other payables balances were affected by the timing of vendor invoicing and payments.

During the year ended December 31, 2021, our operating activities used RMB273.0 million of cash, which resulted principally from our loss before tax of RMB325.7 million, adjusted for non-cash charges and non-operating cash charges of RMB71.9 million, and by cash used in our operating assets and liabilities of RMB19.2 million. Our net non-cash charges and non-operating cash charges during the year ended December 31, 2021 primarily consisted of RMB12.0 million of depreciation of equipment, RMB18.8 million of depreciation for right-of-use assets, RMB0.7 million of intangible assets amortization, RMB4.0 million of interest on lease liabilities; RMB32.7 million of share option expenses, RMB5.0 million of bank interest income, RMB1.0 million of income from government grants; RMB0.3 million of rent concession and RMB10.0 million net foreign exchange losses.

During the year ended December 31, 2020, our operating activities used RMB20.9 million of cash, which resulted principally from our loss before tax of RMB393.1 million, adjusted for non-cash charges and non-operating cash charges of RMB99.9 million, and by cash used in our operating assets and liabilities of RMB272.3 million. Our net non-cash charges during the year ended December 31, 2020 primarily consisted of RMB4.9 million of depreciation of equipment, RMB13.2 million of depreciation for right-of-use assets, RMB0.3 million of intangible assets amortization, RMB4.4 million of interest on lease liabilities; RMB58.9 million of share option expenses, RMB4.4 million of bank interest income, RMB5.8 million of income from government grants; RMB2.6 million of rent concession and RMB30.8 million net foreign exchange losses.

Net Cash used in Investing Activities

Net cash used in investing activities was RMB68.2 million for the year ended December 31, 2021, which resulted primarily from the purchase of equipment, land and construction of Lingang project, partially offset by the interest received from bank. Net cash used in investing activities was RMB14.1 million for the year ended December 31, 2020, which resulted primarily from the purchase of equipment, partially offset by the interest received from bank.

Net Cash used in Financing Activities

Net cash used in financing activities was RMB6.1 million for the year ended December 31, 2021, which resulted from payments relating to lease liabilities, offset by proceeds from exercise of share options. Net cash used in financing activities was RMB7.3 million for the year ended December 31, 2020, which resulted from payments relating to lease liabilities, offset by proceeds from exercise of share options.

Financial position

Our net current assets decreased from RMB938.7 million as of December 31, 2020 to RMB597.7 million as of December 31, 2021. Current assets decreased from RMB1,045.3 million as of December 31, 2020 to RMB704.6 million as of December 31, 2021, primarily due to a decrease in bank balances and cash from RMB1,032.1 million as of December 31, 2020 to RMB675.2 million as of December 31, 2021, which was due primarily to the payments for our research and development activities and daily operation.

Significant change in accounting policy

We have applied the Amendment to IFRS 16 "Covid-19-Related Rent Concessions" issued by the International Accounting Standard Board (the "**IASB**").

Indebtedness

As of December 31, 2021 and 2020, our lease liabilities amounted to RMB71.5 million and RMB80.7 million, respectively. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,	
	2021	**2020**
	RMB'000	**RMB'000**
Current portion	13,296	11,503
Non-current portion	58,232	69,212
Total	71,528	80,715

Our lease liabilities as of December 31, 2021 were from leased properties lease contracts with lease terms of two to five years. As of December 31, 2021, we did not have any other indebtedness.

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to a variety of market risks, including currency risk, interest rate risk, credit risk, and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. We currently do not hedge or consider it necessary to hedge any of these risks.

Currency Risk

Our business mainly operates in the PRC with most of our transactions settled in Renminbi, and our financial statements are presented in Renminbi. Renminbi is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currencies. The value of Renminbi is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk.

Since our inception, we have raised funds through various rounds of offshore financings and received proceeds of such financings in U.S. dollars, HK dollars and Renminbi. We convert a portion of those funds to Renminbi immediately and place the remaining amount in time deposits. We convert additional amounts to Renminbi as needed. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. To the extent that we need to convert U.S. dollar or other currencies we have received in previous financings into Renminbi for our operations, or if any of our arrangements with other parties are denominated in U.S. dollars and need to be converted into Renminbi, appreciation of the Renminbi against the U.S. dollar or other currencies would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollar or other currencies for business purposes, appreciation of the U.S. or HK dollar against the Renminbi would have a negative effect on the U.S. dollar or other currencies amounts available to us. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency rate.

The following table details our sensitivity to a 5% increase and decrease in Renminbi against U.S. dollars and HK dollars, the foreign currencies with which we may have material exposure. No sensitivity analysis has been disclosed for the Taiwan dollars denominated assets as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative/positive number below indicates an increase/decrease in loss where Renminbi strengthens 5% against U.S. dollars and HK dollars. For a 5% weakening of Renminbi against U.S. dollars and HK dollars there would be an equal and opposite impact on loss for the year.

	As of December 31,	
	2021	**2020**
	RMB'000	**RMB'000**
Impact on profit or loss		
US$	(18,134)	(22,228)
HK$	(2,057)	(2,210)

Interest Rate Risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate short-term bank deposits and pledged bank deposits. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Liquidity Risk

As of December 31, 2021 and 2020, we recorded net current assets of RMB597.7 million and RMB938.7 million, respectively. In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Key Financial Ratios

The following table sets forth our key financial ratios as of the dates indicated:

	As of December 31,	
	2021	**2020**
Current ratio[(1)]	6.6	9.8
Quick ratio[(2)]	6.6	9.8
Gearing ratio[(3)]	15.9%	11.0%

(1) Current ratio represents current assets divided by current liabilities as of the same date.

(2) Quick ratio represents current assets less inventories divided by current liabilities as of the same date.

(3) Gearing ratio represents liability divided by equity as of the same date. Liability is defined as lease liabilities (excluding trade and other payables, deferred income and contract liability). Equity includes all capital and reserves of the Group.

The current ratio and quick ratio as of December 31, 2021 decreased by 3.2 compared with that as of December 31, 2020, which was mainly due to the cost of research activities and daily operation.

Charge of the Group's assets

Save as disclosed in this report, as of December 31, 2021, RMB7.8 million of the Group's bank deposits were charged by the bank to secure commencement and completion of the factory construction and launch of production.

Future plans for material investments or capital assets

Save as disclosed in this report, as of December 31, 2021, we plan to continually invest in the Hua Medicine drug manufacturing company which was established at Shanghai Lingang Special Area for ensuring adequate dorzagliatin commercial supply.

Contingent liabilities

Save as disclosed in this report, the Group had no material contingent liabilities as at 31 December 2021.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Li CHEN (陳力), aged 59, is our founder, Chief Executive Officer, Chief Scientific Officer, and the Chairman of the Company's Strategy Committee. He was appointed as a Director on June 4, 2010 and re-designated as an executive Director on May 11, 2018. He has been our Chief Executive Officer since June 4, 2010. Since August 2010, March 2011 and February 2021, respectively, he has served as a director of Hua HK, Hua Shanghai, Hua USA and Hua Lingang.

Dr. Chen has over 30 years of experience in the biopharmaceutical industry. He is a pioneer in collaborative innovation in China and has been actively involved in the development of dorzagliatin including the years he spent at Roche (from whom we acquired our rights to dorzagliatin in 2011). Dr. Chen joined Roche in 1992 in the United States, focusing on R&D. Dr. Chen held many leadership positions rising to become a member of Roche's Research Leadership Team. In his last position at Roche before joining the Group, he served as the founding director and chief scientific officer of Roche China R&D Center in Shanghai, China. In that role, Dr. Chen was responsible for development and implementation of Roche China drug discovery strategy, creation of China discovery portfolio, and management of China operations with several drugs from the Roche R&D portfolio during his tenure (including dorzagliatin).

Dr. Chen obtained his Bachelor of Science in Chemistry from Zhengzhou University in July 1982, a Master of Science in Chemistry from East China Normal University in November 1985 in Shanghai and a Ph.D. in Organic Chemistry in August 1992 from Iowa State University in the United States. He is an inventor of 38 granted patents and has authored 58 scientific publications. From September 2007 to September 2010, Dr. Chen served as an adjunct professor at Tongji University in Shanghai. In 2001, Dr. Chen served as the President of the Sino-American Pharmaceutical Professionals Association ("SAPA").

From 2014 to October 2020, Dr. Chen has served as an independent director of Coland Pharmaceutical Co., Ltd (康聯藥業有限公司), a company primarily engaged in sales, marketing and distribution of pharmaceutical products and medical devices, listed on Taiwan Stock Exchange (stock code: 4144) and withdrawal from listing due to privatization effective on 30 October 2020.

George Chien Cheng LIN (林潔誠), aged 51, was appointed as our Director on May 11, 2018 and re-designated as an executive Director on the same date. He has been the Company's Executive Vice President and Chief Financial Officer since December 22, 2017. Mr. Lin has been serving as a member of the Biotech Advisory Panel of the Stock Exchange since April 24, 2018. Mr. Lin has over 18 years of experience in investment banking working with numerous private and public companies globally. Prior to joining the Group, he worked for Bank of America Merrill Lynch in Hong Kong as an investment banker, and held a number of senior positions including Asia Pacific head of consumer, retail and healthcare investment banking, and head of Hong Kong and Taiwan investment banking coverage from June 2013 to December 2017. From July 2000 to May 2013, he worked for Credit Suisse as an investment banker in the Los Angeles, San Francisco and Hong Kong offices. At Credit Suisse, he focused on financings and merger and acquisitions for a variety of global clients, including, but not limited to, U.S. biotechnology companies and Chinese healthcare companies. His last position at Credit Suisse was Asia Pacific (ex-Japan) head of consumer, retail and healthcare investment banking based in Hong Kong. Prior to investment banking, Mr. Lin practiced corporate law in Los Angeles including working for O'Melveny & Myers for over 4 years from September 1995 to July 1999. Mr. Lin has served as an independent non-executive director at Shanghai Bio-heart Biological Technology Co., Ltd., a company first listed on the main board of the Stock Exchange (Stock code: 2185) on December 23, 2021, since November 2020.

Mr. Lin obtained his bachelor's degree in biological sciences from the University of California at Davis in June 1992 and a juris doctor degree from The University of Chicago Law School in June 1995. Mr. Lin was admitted to the California State Bar in December 1995.

Non-executive Directors

Robert Taylor NELSEN, aged 58, was appointed as our Director on April 23, 2010 and re-designated as a non-executive Director on May 11, 2018. He is the Chairman of our Board, the Chairman of the Nomination Committee and a member of the Strategy Committee, and has also been a director of our subsidiary, Hua HK, since August 2010.

Since 1994, Mr. Nelsen has served as a co-founder and managing director of ARCH Venture Partners, a venture capital firm focused on early-stage technology companies, and has played a significant role in the early sourcing, financing and development of more than 30 biopharmaceutical companies. Mr. Nelsen has been serving as a non-executive director of Brii Biosciences Limited 腾盛博药生物科技有限公司 (stock code: 2137) since June 2018, a company listed on the main board of the Stock Exchange. He has also been serving as a director of Renovation Healthcare Acquisition Corp. Vir (stock code: REVH) since March 2021, Sana Biotechnology (stock code: SANA) since September 2018, independent director of Lyell Immunopharm (stock code: LYEL) since August 2018, and director of Vir Biotechnology Inc. (stock code: VIR) since January 2017, Denali Therapeutics, Inc. (stock code: DNLI) since May 2015, and previously served as a director of Sienna Biopharmaceuticals, Inc. (stock code: SNNA) from August 2015 to October 2018, Syros Pharmaceuticals, Inc. (stock code: SYRS) from August 2012 to June 2018, Juno Therapeutics, Inc. (stock code: JUNO) from August 2013 to March 2018, KYTHERA Biopharmaceuticals, Inc. (stock code: KYTH) from January 2006 to December 2014, Agios Pharmaceuticals Inc. (stock code: AGIO) from December 2007 to June 2017, Sage Therapeutics, Inc. (stock code: SAGE) from September 2013 to March 2016, Bellerophon Therapeutics, Inc. (stock code: BLPH) from February 2014 to November 2015, Adolor

Corporation (stock code: ADLR) from November 1994 to May 2004, Illumina, Inc. (stock code: ILMN) from June 1998 to August 2006, Fate Therapeutics, Inc. (stock code: FATE) from September 2007 to June 2014, and NeurogesX, Inc. (stock code: NGSX) from July 2000 to July 2013, and Unity Biotechnology, Inc. (stock code: UBX) from November 2011 to December 2020, Karuna Therapeutics Inc. (stock code: KRTX) from August 2018 to June 2021 and Beam Therapeutics Inc. (stock code: BEAM) from June 2017 to June 2021, all of which are companies listed on NASDAQ stock market in the United States. Subsequent to June 29, 2012, NGSX shares were quoted on the Over the Counter Bulletin Board (OTC) in the United States. Mr. Nelsen also previously served as a trustee of Fred Hutchinson Cancer Research Center.

Mr. Nelsen received a Bachelor of Science degree with majors in economics and biology from the University of Puget Sound in the United States in 1985 and an M.B.A. from the University of Chicago in the United States in 1987.

Lian Yong CHEN (陳連勇), aged 59, was appointed as our Director on January 6, 2015 and re-designated as a non-executive Director on May 11, 2018. Dr. Chen resigned as a non-executive Director on March 16, 2022. Dr. Lian Yong Chen was a member of the Remuneration Committee prior to his resignation. He has also been a director of our subsidiaries, Hua HK and Hua Shanghai, since January 2015 and April 2016 respectively. Dr. Lian Yong Chen is currently the founding managing partner and chief executive officer of 6 Dimensions Capital. He has over 20 years of experience in the life sciences industry in China and the United States as a venture capitalist, senior management executive, entrepreneur, and scientific inventor. He was the founder and managing partner at Frontline BioVentures and a partner at FIL Capital Management (Hong Kong) Limited in Asia from May 2008 to March 2014.

Since May 2019, he has served as a director at 111, Inc., a company listed on NASDAQ (stock code: YI). From August 2018 to July 2021, he had served as a director at CStone Pharmaceuticals, a company listed on the main board of the Stock Exchange (stock code: 2616). He has served as a director at Ocumension Therapeutics, a company listed on the main board of the Stock Exchange (stock code: 1477) since May 2018 (being re-designated from executive Director to non-executive Director on July 20, 2021). Dr. Lian Yong Chen has also served as a director of Shanghai Hile Bio-Pharmaceutical Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 603718) from December 2014 to May 2021.

Dr. Lian Yong Chen conducted postdoctoral research at the Massachusetts Institute of Technology after obtaining his Ph.D. degree in Chemistry (with top honor) from the University of Louvain, Louvain-La-Neuve in Belgium in July 1991. He obtained his Bachelor of Science degree in Chemistry from Peking University in June 1984.

Ms. Wei ZHAO, aged 42, was appointed as our non-executive Director on March 16, 2022. Ms. Zhao is a non-practising member of the Chinese Institute of Certified Public Accountants. She is currently the executive director, Corporate Development and Investments of WuXi AppTec (Shanghai) Co., Ltd., and she is mainly responsible for sourcing, evaluating, executing and integrating its strategic acquisitions, investments and joint ventures. Since March 2019, she has also been serving as the non-executive Director of Clarity Medical Group Holding Limited, a company listed on the Stock Exchange (stock code: 1406). Ms. Zhao worked at Ernst & Young Hua Ming Shanghai Branch ("EY Shanghai") from September 2001 to April 2008. From February 2006 to April 2006, she briefly left EY Shanghai and worked for Deloitte & Touche Corporation Finance Ltd. Later, from May 2008 to November 2014, she worked at Ernst & Young (China) Advisory.

Ms. Zhao received her bachelor's degree of science with a major in business and finance in English from Shanghai Jiao Tong University in July 2001 and a master's degree of business administration from The University of Hong Kong in November 2013.

Independent Non-executive Directors

Walter Teh-Ming KWAUK (郭德明), aged 69, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also the Chairman of the Audit Committee and a member of the Remuneration Committee. Mr. Kwauk is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Kwauk has been serving as an independent director at Alibaba Group Holding Limited, a company primarily engaged in internet commerce services and listed on the New York Stock Exchange (stock code: BABA) and the Stock Exchange (stock code: 9988), since September 2014 and November 2019, and is currently the chairman of the audit committee and a member of compensation committee of Alibaba Group Holding Limited. He previously served as an independent non-executive director and chairman of the audit committee of Alibaba.com Limited, a subsidiary of Alibaba Group Holding Limited which was listed on the Stock Exchange, from October 2007 to July 2012. Mr. Kwauk is also currently a senior adviser of Motorola Solutions (China) Co., Ltd., a software and services company primarily engaged in provision of data communications and telecommunications equipment, and serves as an independent non-executive director of Sinosoft Technology Group Limited, a software and services company listed on the Stock Exchange (stock code: 1297), and WuXi Biologics (Cayman) Inc., a company primarily engaged in biologics services provision and listed on the Stock Exchange (stock code: 2269), for both of which Mr. Kwauk is also the chairman of their audit committees.

From June 2014 to August 2016, he served as an independent non-executive director and the chairman of the audit committee of China Fordoo Holding Limited, a menswear design and manufacturing company listed on the main board of the Stock Exchange (stock code: 2399), and has been responsible for providing independent judgment to the board of the company. From August 2014 to December 2015, Mr. Kwauk also served as an independent director of WuXi PharmaTech, a biopharmaceutical company formerly listed on the New York Stock Exchange during the same period. Mr. Kwauk was a vice president of Motorola Solutions, Inc., data communications and telecommunications equipment provider, and its director of corporate strategic finance and tax for Asia Pacific from 2003 to 2012. Mr. Kwauk served with KPMG from 1977 to 2002 and held a number of senior positions, including the general manager of KPMG's joint venture accounting firm in Beijing, the managing partner in KPMG's Shanghai office and a partner in KPMG's Hong Kong office.

Mr. Kwauk has been a member of the Hong Kong Institute of Certified Public Accountants since March 1983. He received a bachelor's degree in science and a licentiate's degree in accounting from the University of British Columbia in Canada in April 1975 and April 1977, respectively.

William Robert KELLER, aged 73, was appointed as independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also the Chairman of the Remuneration Committee as well as a member of the Audit Committee and Nomination Committee. Mr. Keller is primarily responsible for supervising and providing independent judgment to our Board.

Since May 2017, Mr. Keller has served as an independent non-executive director on the board of WuXi Biologics, a company primarily engaged in biologics services provision and listed on the main board of the Stock Exchange (stock code: 2269). Since August 2020, he serves as non executive director on the Board of Cathay Biotech Inc, an industrial biotechnology company and listed on the Shanghai Stock Exchange's STAR market (stock code: SS688065.SS). Mr. Keller had been appointed as director of Artisan Acquisition Corp. (stock code: ARTA) on March 8, 2021, a company which is listed on NASDAQ stock market in the United States. From December 2010 to October 2020, he holds directorship at Coland Pharmaceutical Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 4144) and withdrawal from listing due to privatization effective on 30 October 2020. From September 2014 to December 2015, Mr. Keller served as an independent director of WuXi PharmaTech, a biopharmaceutical company formerly listed on the New York Stock Exchange during the same period. Between 1974 to 2003, Mr. Keller served in various positions at the Roche Group, including as the general manager of Roche China Ltd. and Shanghai Roche Pharmaceutical Ltd. He has been a vice chairman of the Shanghai Association of Enterprises with Foreign Investment, a senior consultant to the Shanghai Foreign Investment Development Board, and the deputy general manager of Zhangjiang Biotech and Pharmaceutical Base Development Co., Ltd. Mr. Keller previously held directorships in biopharmaceutical companies including Alexion Pharmaceuticals, Inc., a company listed on NASDAQ (stock code: ALXN) from December 2009 to May 2015, China Nuokang Pharmaceutical Inc., a company listed on NASDAQ (stock code: NKBP) from August 2008 to December 2011. He has also served as a chairman of HBM Biomed China Partners and Coland Pharmaceutical Co. Ltd.

Mr. Keller obtained a Bachelor of Science degrees from the School of Economics and Business Administration in Switzerland in July 1972.

Junling LIU (劉峻嶺), aged 57, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also a member of the Nomination Committee, Strategy Committee and Remuneration Committee. Mr. Liu is the chairman and chief executive officer of 111,Inc., a digital and mobile healthcare platform operator in China, a company listed on NASDAQ (stock code: YI). Mr. Liu was a co-founder and chief executive officer of Yihaodian. Before establishing Yihaodian in 2008, Mr. Liu was a co-president of Dell (China) Company Limited from 2006 to 2007. He has been an independent non-executive Director of Autohome Inc. since January 12, 2015, a company listed on New York Stock Exchange (stock code: ATHM) and the Hong Kong Stock Exchange (stock code: 2518).

Mr. Liu received his Master of International Business Administration degree from Flinders University in Australia in 1998.

Yiu Wa Alec TSUI (徐耀華), aged 72, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also a member of the Audit Committee. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management. He served at various positions, including the chief executive of the Stock Exchange from February 1997 to August 2000, the chief operating officer of Hong Kong Exchanges and Clearing Limited from March 2000 to August 2000 and the chairman of Hong Kong Securities Institute from December 2001 to December 2004. Mr. Tsui was the chairman and director of WAG Worldsec Corporate Finance Limited, a private professional consulting services and financial solutions company from February 2006 to June 2016, and presently serves as a director to WAG Worldsec Management Consultancy Limited.

Mr. Tsui is an independent non-executive director of a number of companies listed in Hong Kong, namely, COSCO Shipping International (Hong Kong) Co., Ltd., (stock code: 517) since February 2004, Pacific Online Limited (stock code: 543) since November 2007, and Brii Biosciences Limited (stock code: 2137) since July 2021. He also serves as independent director of two NASDAQ listed companies, ATA Creativity Global (previous known as ATA Inc.) (stock code: AACG) since January 2008 and Melco Resorts & Entertainment Limited (stock code: MLCO) since December 2006. From December 2012 to November 2020, Mr. Tsui also served as independent director of Melco Resorts and Entertainment (Philippines) Corporation (stock code: MRP), a company listed on the Philippine Stock Exchange and withdrawal from listing effective on June 11, 2019. Mr. Tsui is also an independent non-executive director of Industrial & Commercial Bank of China (Asia) Limited, a company previously listed in Hong Kong, since August 2000. He also served as independent non-executive directors in various other Hong Kong listed companies, including China Power International Development Limited (stock code: 2380) from March 2004 to December 2016, China Oilfield Services Limited (stock code: 2883) from June 2009 to June 2015, Summit Ascent Holdings Limited (stock code: 102) from March 2011 to September 2018, Kangda International Environmental Company Limited (stock code: 6136) from July 2014 to April 2019, and DTXS Silk Road Investment Holdings Company Limited (stock code: 620) from December 2015 to May 2020.

Mr. Tsui graduated from the University of Tennessee in the United States, with a bachelor's degree in science in industrial engineering in June 1975 and a master's degree in engineering in June 1976. He completed the programme for senior managers in government at the John F. Kennedy School of Government at Harvard University in the United States in August 1993.

Changes to information in respect of the Directors

Mr. George Chien Cheng LIN has served as an independent non-executive director at Shanghai Bio-heart Biological Technology Co., Ltd., a company first listed on the Main Board of the Stock Exchange (Stock code: 2185) on December 23, 2021, since November 2020.

Dr. Lian Yong CHEN had been re-designed from executive director to non-executive Director of Ocumension Therapeutics (stock code: 1477) effective on July 20, 2021.

Dr. Lian Yong CHEN resigned as a non-executive Director and as a member of the Remuneration Committee with effect from March 16, 2022 in order to devote more time to his other work commitments.

Mr. Junling LIU was appointed as a member of the Remuneration Committee with effect from March 16, 2022.

Ms. Wei ZHAO was appointed as a non-executive Director with effect from March 16, 2022.

Save as disclosed above, up to the date of this annual report, there was no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

SENIOR MANAGEMENT

Li CHEN (陳力), see "－Directors" for details.

George Chien Cheng LIN (林潔誠), see "－Directors" for details.

Yi ZHANG (張怡), aged 47, has been serving as the senior vice president of our Clinical R&D department since April 2018. In August 2020, Dr. Zhang was promoted to senior vice president of Pharma Development and Chief Medical Officer – China. In November 2021, Dr. Zhang was promoted to senior vice president of Pharma Development and Chief Medical Officer. Prior to joining our Group in February 2013 as the Head of our Clinical R&D department, Dr. Zhang was the associate medical director of clinical science at Roche Product Development group, Asia Pacific region since 2010. She served as a clinical scientist for innovative drug development in the areas of cardiovascular, metabolic and renal diseases. Prior to Roche, Dr. Zhang was as an Associate Professor and Physician worked at Shanghai Ruijin Hospital, affiliated to Shanghai Jiao Tong University School of Medicine and as Physician worked at Shanghai Renji Hospital, affiliated to Shanghai Jiaotong University School of Medicine during 1999 to 2010. Dr. Zhang received her bachelor and master's degree in Clinical Medicine from Shanghai Jiaotong University School of Medicine in 1999, and her Ph.D. in Cardiology from Shanghai Jiaotong University School of Medicine in 2004. As a Visiting Researcher, she studied at National Institutes of Health (NIH)/NHLBI Framingham Heart Study in USA in 2009. Dr. Zhang was nominated as a "Shanghai Excelling Academic/Technical Leader" (上海市優秀學術／技術帶頭人) in 2015 and has authored 60 publications in journals such as Nature Genetics, Lancet Diabetes Endocrinol, Circulation: Cardiovascular Genetics, and has invented 3 China patents.

Jin SHE (佘勁), aged 49, has been serving as the Company's vice president in our Chemical Manufacturing Control department since June 2015. In February 2021, Dr. She was promoted to senior vice president of Chemical Manufacturing Control department and Chief Manufacturing Officer. Prior to joining our Group in June 2015, Dr. She worked at MSD R&D Center (China) from January 2013 to May 2015 and at Roche R&D Center (China) from April 2009 to December 2012. He has 8 publications in peer-reviewed journals and 6 patents. Dr. She received his Ph.D. degree in chemistry from the University of North Carolina at Chapel Hill in August 2004 and his bachelor and master's degree in chemistry from Peking University in China in July 1996 and July 1999, respectively.

Fuxing TANG (湯福興), aged 55, has been serving as Chief Technology Officer, vice president in our Chemical Manufacturing Control department and head of R&D in USA since February 2020. Dr. Tang obtained his Ph.D. in Pharmaceutical Sciences from the University of Florida and conducted postdoctoral research in peptide delivery in Professor Ronald Borchardt ("Father of Caco-2") group. Dr. Tang started his career in Forest labs, Inc. During his tenure in Forest labs, Inc./Allergan, Dr. Tang was instrumental in building biopharmaceutical functions and in charging of multi-functions of ADME, preformulation, drug product formulation and post approval drug products manufacturing process trouble-shooting. In addition, Dr. Tang contributed to the development of novel CaCo2 technology for drug discovery and the concept of MDO – multiple dimensional optimization in drug discovery. Prior to joining us, Dr. Tang worked as reviewer in ORS, FDA and worked in TEVA/Allergan as global Director of Biopharmaceutical Sciences. He has led and contributed to multiple products launch and NDA/ANDA filings.

Yilei FU (付宜磊), aged 51, has been serving as the Company's vice president for the Quality Assurance department since he joined our Group in July 2017. In February 2021, Mr. Fu was promoted to senior vice president of Quality Assurance department and Chief Quality Officer. Mr. Fu served as quality director at Boehringer-Ingelheim from September 2010 to July 2017. Mr. Fu also served as senior quality and compliance manager at pharmaceutical company Xian Janssen in the late 2000s. Prior to that, he served as quality assurance manager at pharmaceutical company AstraZeneca. Mr. Fu obtained his bachelor's degree in pharmaceutical analysis from Shenyang Pharmaceutical University in 1994, his master's degree of business administration from Shanghai Jiaotong University in China in January 2008 and was certified as a licensed pharmacist by the China Food and Drug Administration in October 2000.

Wenjie XU (徐文潔), aged 50, has been serving as vice president, Head of Commercial Strategy and Marketing since August 9, 2018. Prior to joining our Group, Ms. Xu served as Executive Director of the Cardiovascular, Renal, and Metabolic Business Unit of AstraZeneca China from January 2016 to August 2018. Ms. Xu's principal responsibility at AstraZeneca China was sales and marketing of their diabetes franchise in China, including the successful launch of Dapagliflozin. Prior to AstraZeneca, she also served in various sales and marketing roles at Eli Lilly from February 2007 to December 2015, focused on diabetes starting in 2009. Prior to Eli Lilly, Ms. Xu served in sales and marketing functions of various pharmaceutical companies, including Amgen China. Ms. Xu obtained her bachelor's degree in pharmaceutical analysis from the China Pharmaceutical University in 1993, and a master of business administration degree from Goizueta Business School, Emory University in the United States, in 2004.

Di Hong (洪滌), aged 43, has been serving as the Company's vice president for the operation department and co-chair of the Hua Medicine Joint Admin Committee since he joined our Company in May 2021. Dr. Hong brings over 15 years' experience in the drug discovery research and corporate operation in the large multi-national pharmaceutical companies. Prior to joining Hua Medicine, he served as the Head of Operations at BioDuro-Sundia from May 2019 to April 2021,taking charge of BioDuro-Sundia China Operation, as executive director and member of executive committee. Prior to BioDuro-Sundia, he served as the Head of Operations with Amgen Asia R&D Center from April 2014 to May 2019, in charge of all operational functions including Academic External Collaboration, as a member of the senior management team. From June 2005 to April 2014, he was engaged in new drug research and operation management in Roche (China) R&D Center and Lily (China) R&D Center. Dr. Hong received his bachelor and master's degree in chemistry from Zhejiang University in 2001 and in 2005 respectively, MBA from Shanghai University of Finance and Economics and doctor degree of business administration from Nice University in 2020.

REPORT OF DIRECTORS

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2021.

Principal activities

The Company, together with its subsidiaries, is principally engaged in the development of a global first-in-class oral drug, Dorzagliatin or HMS5552, for the treatment of diabetes. Dorzagliatin is a first-in-class glucokinase activator, or GKA, designed to control the progressive degenerative nature of diabetes by restoring glucose homeostasis in T2D. The Company in-licensed the global rights to Dorzagliatin from Roche.

Business review

A review of the Company's business, and a discussion of future clinical progress and business development are presented in the sections titled "Chairman and CEO Statement" on pages 6 to 7 of this annual report, "Management Discussion and Analysis" on pages 8 to 17. The financial risk management objectives and policies of the Company are set out in note 30 of the consolidated financial statements in this annual report. Significant events that have an effect on us subsequent to the financial year ended December 31, 2021 are set out in the "Key events after the Reporting Period" section of the "Management Discussion and Analysis" on page 10.

More information regarding the Company's performance with regards to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations are discussed in the "Environmental, Social and Governance Report".

Financial key performance indicators

The financial key performance indicators of the Group for the year are set out in the section "Business and Financial Highlights" of this annual report.

Dividend policy and final dividend

Subject to the laws of the Cayman Islands and the Articles of Association, the Company may in general meeting declare dividends in any currency but no dividends shall exceed the amount recommended by the Board, and no dividend will be declared or payable except out of the profits and reserves of the Company lawfully available for distribution including share premium. We do not currently have an expected dividend payout ratio. The determination to pay dividends will be made at the discretion of the Board and will be based upon our cash flow, financial condition, capital requirements and any other conditions that our Directors deem relevant.

The Board did not recommend the payment of final dividend for the year ended December 31, 2021 (December 31, 2020: NIL).

Major suppliers and customers

For the year ended December 31, 2021, the Group's five largest suppliers accounted for 39.5%, as compared to 46.1% of the Group's total purchases for the year ended December 31, 2020. The Group's single largest supplier accounted for 16.8% for the year ended December 31, 2021, as compared to 14.5% of the Group's total purchases for the year ended December 31, 2020. Wuxi App Tec Group, which includes Shanghai SynTheAll Pharmaceuticals Co., Ltd., Changzhou SynTheAll Pharmaceutical Co.,Ltd., Shanghai STA Pharmaceuticals Product Co., Ltd., Shanghai STA Pharmaceutical R&D Co., Ltd., Wuxi Medkey Med-Tech Development (Shanghai) Co.,Ltd., WuXi Clinical Development Services (Shanghai) Co., Ltd., WuXi AppTec (Su Zhou) Co., Ltd., WuXi AppTec (Tianjin) Co., Ltd., WuXi AppTec (Shanghai) Co., Ltd., and Wuxi MedKey Med-Tech Development Co., Ltd., a related group controlled by the substantial shareholder of the Company, was the Group's largest supplier for the year.

Save as disclosed above, during the year ended December 31, 2021, at no time did the Directors or any of their close associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of total issued Shares of the Company) had interest in the Group's five largest suppliers.

During the year ended December 31, 2021, there were no sales of goods or rendering of services by the Group and thus, no major customers were identified.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 32 to the consolidated financial statements.

Equipment

Details of the movements in equipment of the Group during the year ended December 31, 2021 are set out in note 16 to the consolidated financial statements.

Share capital

The changes in the share capital of the Company during the year ended December 31, 2021 are set out in note 25 to the consolidated financial statements.

Debentures

As of December 31, 2021 and 2020, our lease liabilities amounted to RMB71.5 million and RMB80.7 million, respectively. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,	
	2021	**2020**
	RMB'000	**RMB'000**
Current portion	13,296	11,503
Non-current portion	58,232	69,212
Total	71,528	80,715

Our lease liabilities as of December 31, 2021 were from leased properties lease contracts with lease terms of two to five years. As of December 31, 2021, we did not have any other indebtedness.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2021.

Pre-emptive rights

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

Reserves

Details of the movement in the reserves of the Group and the Company during the year ended December 31, 2021 are set out in the consolidated statement of changes in equity and note 34, respectively. The distributable reserve as at December 31, 2021 is RMB1,784,276,000.

Borrowings

Details of the borrowings of the Group are set out in the section headed "Management Discussion and Analysis" in this annual report.

Tax Relief and Exemption

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

Use of net proceeds from the Global Offering

The Company's Shares were listed on the Stock Exchange on September 14, 2018. The net proceeds from the Company's issue of new Shares amounted to RMB747.2 million (including the issue of additional Shares pursuant to the partial exercise of the over-allotment option on October 5, 2018), which have been, and will continue to be, applied according to the intentions set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. We expect that a portion of the net proceeds will be carried forward and utilized in financial year 2022 due to a slight adjustment to the timeline for the development of our manufacturing capabilities.

The following table sets forth the status of the Company's use of proceeds raised in the Global Offering as of December 31, 2021:

	% of use of proceeds	Net proceeds from the Global Offering RMB million	Unutilized net proceeds as of January 1, 2021 RMB million	Utilization during the year ended December 31, 2021 RMB million	Actual usage up to December 31, 2021 RMB million	Unutilized net proceeds as of December 31, 2021 RMB million	Expected time frame for unutilized amount
(a) Dorzagliatin research and development	39%	291.4	–	–	291.4	–	N/A
(b) Dorzagliatin lifecycle management and additional indications	9%	67.2	34.1	7.3	40.4	26.8	By the end of year 2022
(c) Dorzagliatin launch and commercialization	27%	201.8	170.3	21.5	53.0	148.8	By the end of year 2023
(d) New product and diabetes care technology development	11%	82.2	68.5	8.2	21.9	60.3	By the end of year 2023
(e) Product licensing and partnership	4%	29.9	29.9	6.4	6.4	23.5	By the end of year 2023
(f) General working capital	10%	74.7	–	–	74.7	–	N/A
Total	100%	747.2	302.8	43.4	487.8	259.4	By the end of year 2023

Directors

The Directors during the year ended December 31, 2021 and up to the date of this annual report were:

Executive directors

Li CHEN (陳力) (Chief Executive Officer and Chief Scientific Officer)
George Chien Cheng LIN (林潔誠) (Executive Vice President and Chief Financial Officer)

Non-executive directors

Robert Taylor NELSEN (Chairman)
Wei ZHAO (趙瑋) (appointed on March 16, 2022)
Lian Yong CHEN (陳連勇) (resigned on March 16, 2022)

Independent non-executive directors

Walter Teh-Ming KWAUK (郭德明)
William Robert KELLER
Junling LIU (劉峻嶺)
Yiu Wa Alec TSUI (徐耀華)

Biographies of the Directors and Senior Management

The biographies of the Directors and senior management of the Company are provided in the section titled "Directors and Senior Management" on pages 18 to 25 of this annual report.

Directors' Service Contracts

Each of Dr. Li CHEN and Mr. George Chien Cheng LIN, being our executive Directors, has entered into a letter of appointment with us for a term of three years, which may be terminated by not less than 30 days' notice in writing served by either the executive Director or our Company.

Each of Mr. Robert Taylor NELSEN, Dr. Lian Yong CHEN and Ms. Wei ZHAO, being our non-executive Directors, has entered into a letter of appointment with us for a term of three years, which may be terminated by not less than one month's notice in writing served by either the non-executive Director or our Company.

Each of Mr. Walter Teh-Ming KWAUK, Mr. William Robert KELLER, Mr. Junling LIU, and Mr. Yiu Wa Alec TSUI, being our independent non-executive Directors, has entered into a letter of appointment with us for a term of three years, which may be terminated by not less than one month's notice in writing served by either the independent non-executive Director or our Company.

No Director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Company or existed during the year ended December 31, 2021.

Emolument policy

In compliance with the CG Code, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's performance, qualification, position and seniority, as well as comparable market practices. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme.

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in note 12 and note 13 to the consolidated financial statements in this annual report.

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

Directors' interests in transactions, arrangements, or contracts of significance

Save as disclosed in this annual report, there was no transaction, arrangement or contract of significance to which the Company, or any of its holding companies or subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director was materially interested, whether directly or indirectly, that subsisted during or at the end of the Reporting Period.

Directors' interests in competing business

As of the date of this annual report, none of the Directors nor their respective associates (as defined in the Listing Rules) had interests in businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Dr. Li CHEN has provided a confirmation in respect of the compliance with the deed of non-competition ("Deed of Non-competition") dated August 29, 2018, details of which are set out in the Prospectus.

The independent non-executive Directors have also reviewed the compliance by Dr. CHEN with the Deed of Non-competition during the year ended December 31, 2021 and have confirmed that, as far as they can ascertain, there is no breach by Dr. Chen of the Deed of Non-competition.

Permitted indemnity provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Reporting Period. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Equity-linked agreement

Save for the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme of the Company as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2021.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his 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.

Disclosure of Interests

Directors and chief executives' interests and/or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations are set forth below:

As of December 31, 2021, the interest or short positions of the Directors or the chief executives of the Company in the Shares or underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") 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 contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the ordinary Shares:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Li CHEN	Interest of spouse (1)	25,220,690(L)	2.39%
	Beneficial Owner (2)	29,000,725(L)	2.74%
	Interest of Controlled Corporation (3)	10,000,000(L)	0.95%
George Chien Cheng LIN	Founder and beneficiary of trust (4)	3,633,178(L)	0.34%
	Beneficial Owner (5)	30,758,522(L)	2.92%
Robert Taylor NELSEN	Interest of Controlled Corporation (6)	125,088,960(L)	11.86%
	Beneficial Owner (7)	150,000(L)	0.01%
Lian Yong CHEN	Interest of Controlled Corporation (8)	8,571,420(L)	0.81%
	Beneficial Owner (9)	108,486(L)	0.01%
Yiu Wan Alec TSUI	Beneficial Owner (10)	24,000(L)	0.01%

Notes:

(1) Dr. CHEN is the spouse of Ms. Jane Xingfang HONG. Under the SFO, Dr. CHEN is deemed to be interested in the same number of Shares in which Ms. Jane Xingfang HONG maintains on interest.

(2) Being options for Shares granted pursuant to the Pre-IPO and Post-IPO Share Incentive Scheme.

(3) On 10 April 2019, 100,000 ordinary shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange of 1 voting share representing 100% voting right in Chen Family Investments, LLC and therefore, Ms. Jane Xingfang HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 ordinary shares of the Company held by Chen Family Investments, LLC.

(4) The George and Ann Lin 2005 Trust is a family trust set up by Mr. LIN; therefore, Mr. LIN is deemed to be interested in the same number of Shares held by the George and Ann Lin 2005 Trust.

(5) Being options and awards pursuant to the Pre-IPO Share Incentive Scheme and Post-IPO Share Incentive Scheme.

(6) ARCH Venture Partners VII, LLC is controlled as to one-third by Mr. Robert Taylor NELSEN and is the general partner of ARCH Venture Partners VII, L.P.. Mr. NELSEN is therefore deemed to be interested in the same number of Shares held by ARCH Venture Fund VII, L.P..

(7) Being shares purchased on the secondary exchange market.

(8) Dr. Lian Yong CHEN is the general partner of China Life Sciences Access Fund, L.P. and is therefore deemed to be interested in the same number of Shares held by China Life Sciences Access Fund, L.P..

(9) Being entitled to these shares as part of employment agreement with Eight Roads Holding Limited.

(10) Being shares purchased on the secondary exchange market.

(11) The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2021.

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

Save as disclosed above, so far as the Directors are aware, none of the Directors or the chief executive of the Company had registered an interest or short position in any Share or underlying Shares or debentures of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

Substantial Shareholders

Substantial Shareholders' interests and short positions in the Shares, underlying Shares and debentures of the Company

As of December 31, 2021, the interests of relevant persons (other than a Director or the chief executives of the Company) who had interests or short positions in the Shares or the underlying Shares, as recorded in the register required to be kept under Section 336 of SFO, were as follows:

Name of Shareholders	Capacity/nature of interest	Number of Shares held[9]	Approximate percentage of shareholding in the Company
ARCH Venture Fund VII, L.P.[1]	Beneficial interest	125,088,960(L)	11.85%
ARCH Venture Partners VII, L.P.[1]	Interest in controlled corporation	125,088,960(L)	11.85%
ARCH Venture Partners VII, LLC[1]	Interest in controlled corporation	125,088,960(L)	11.85%
Keith Lawrence CRANDELL[1]	Interest in controlled corporation	125,088,960(L)	11.85%
Clinton Whitewood BYBEE[1]	Interest in controlled corporation	125,088,960(L)	11.85%
Venrock Associates V, L.P.[2]	Beneficial interest	103,475,595(L)	9.80%
Venrock Management V, LLC[2]	Interest in controlled corporation	103,475,595(L)	9.80%
FMR LLC[3][4]	Interest in controlled corporation	62,787,238(L)	5.95%

Name of Shareholders	Capacity/nature of interest	Number of Shares held[9]	Approximate percentage of shareholding in the Company
WuXi PharmaTech Healthcare Fund I L.P.[5]	Beneficial interest	73,829,635(L)	6.99%
WuXi PharmaTech Fund I General Partner L.P.[5]	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi PharmaTech Investments (Cayman) Inc.[5]	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi PharmaTech Investment Holdings (Cayman) Inc.[5]	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi AppTec International Holdings Limited[5]	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi AppTec Co., Ltd.[5]	Interest in controlled corporation	73,829,635(L)	6.99%
HLYY Limited[6]	Nominee of a trust	105,474,543(L)	9.99%
TCT (BVI) Limited[6]	Interest in controlled corporation	105,474,543(L)	9.99%
The Core Trust Company Limited[6]	Trustee	105,474,543(L)	9.99%
Jane Xingfang HONG[7]	Beneficial interest	19,220,690(L)	1.83%
	Interest of spouse	29,000,725(L)	2.74%
	Interest in controlled corporation	10,000,000(L)	0.95%
	Founder of Trust	6,000,000(L)	0.56%

Notes:

1. To the best of our Directors' knowledge, ARCH Venture Fund VII, L.P. is a Delaware limited partnership established in the United States. The general partner of ARCH Venture Fund VII, L.P. is ARCH Venture Partners VII, L.P., a Delaware limited partnership established in the United States. The general partner of ARCH Venture Partners VII, L.P. is ARCH Venture Partners VII, LLC, a limited liability company incorporated in the United States. ARCH Venture Partners VII, LLC is controlled as to one-third by each of Mr. Robert Taylor NELSEN, our non-executive Director, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE. As such, each of ARCH Venture Partners VII, L.P., ARCH Venture Partners VII, LLC, Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE is deemed to be interested in the equity interest held by ARCH Venture Fund VII, L.P. and the ultimate controllers of ARCH Venture Fund VII, L.P. are Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE.

2. To the best of our Directors' knowledge, Venrock Associates V, L.P. is an exempted limited partnership established in the United States. The general partner of Venrock Associates V, L.P. is Venrock Management V, LLC, an exempted limited liability company established in the United States. Venrock Management V, LLC is ultimately controlled by a group of individuals, none of whom controls, directly or indirectly, one-third or more of the voting power at the general meetings of Venrock Management V, LLC or otherwise is deemed to control Venrock Management V, LLC under the SFO.

3. To the best of our Directors' knowledge, Asia Ventures II L.P. is a limited partnership established in Bermuda and holds approximately 3.48% of the voting rights of the Company. Further, F-Prime Capital Partners Healthcare Fund II LP is a limited partnership established in Delaware and holds approximately 2.36% of the voting rights of the Company.

   Besides, Fidelity Institutional Asset Management Trust Company and FIAM LLC are controlled by FMR LLC (as defined under the SFO), holds approximately 0.11% of the voting rights of the Company altogether.

   As such, under the SFO, FMR LLC is deemed to be interested in the equity interests held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP, Fidelity Institutional Asset Management Trust Company, and FIAM LLC which collectively hold 5.95% of the voting rights of the Company.

4. To the best of our Directors' knowledge, Impresa Fund III Limited Partnership is deemed to be interested in the equity interests held by both Asia Ventures II L.P. and F-Prime Capital Partners Healthcare Fund II LP due to its interests in each of Asia Ventures II L.P. and F-Prime Capital Partners Healthcare Fund II LP as a limited partner. The general partner of Impresa Fund III Limited Partnership is Impresa Management LLC, which is controlled (as defined under the SFO) by each of Abigail P. JOHNSON and Edward C. JOHNSON IV and owned, directly or indirectly, by various shareholders and employees of FMR LLC. Further, the general partner of F-Prime Capital Partners Healthcare Fund II LP is F-Prime Capital Partners Healthcare Advisors Fund II LP, whose general partner is Impresa Management LLC.

As such, under the SFO, Impresa Fund III Limited Partnership, Impresa Management LLC, Abigail P. JOHNSON, Edward C. JOHNSON IV and FMR LLC are deemed interested in the Shares held by Asia Ventures II L.P., F-Prime Capital Partners Healthcare Fund II LP and Impresa Fund III Limited Partnership, which FMR LLC collectively hold 5.95% of the voting rights of the Company.

5. To the best of our Directors' knowledge, the general partner of Wuxi Pharmatech Healthcare Fund I L.P. is Wuxi Pharmatech Fund I General Partner L.P., a limited partnership established in the Cayman Islands whose general partner is Wuxi Pharmatech Investments (Cayman) Inc., an exempted limited liability company established in the Cayman Islands. Wuxi Pharmatech Investments (Cayman) Inc. is a wholly-owned subsidiary of Wuxi Pharmatech Investment Holdings (Cayman) Inc., which is in turn wholly-owned by Wuxi AppTec International Holdings Limited, which is in turn wholly-owned by WuXi AppTec Co., Ltd.

6. HLYY Limited is 100% owned by TCT (BVI) Limited. TCT (BVI) Limited is 100% owned by The Core Trust Company Limited. HLYY Limited holds the Shares underlying the option and awards granted under the Pre-IPO Share Incentive Scheme.

7. Ms. Jane Xingfang HONG is the spouse of Dr. Li CHEN, who was granted options for 13,921,725 Shares pursuant to the Pre-IPO Share Incentive Scheme and 15,079,000 share options granted pursuant to the Post-IPO Share Option Scheme, respectively. Under the SFO, Ms. HONG is deemed to be interested in the same number of Shares in which Dr. CHEN maintains on interest. She also holds approximately 2.39% of the voting rights of the Company.

   On April 10, 2019, 100,000 ordinary shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange of 1 voting share representing 100% voting right in Chen Family Investments, LLC and therefore, Ms. HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 ordinary shares of the Company held by Chen Family Investments, LLC.

   On October 13, 2021, 6,000,000 shares were transferred to a discretionary trust set up by Ms. Jane Xingfang HONG; therefore, Ms. HONG is deemed to be interested in the same number of Shares held by the trust.

8. The letter "L" denotes the person's long position in the Shares.

9. The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2021.

Saved as disclosed above, so far as the Directors are aware, no other persons had registered an interest or short position in any Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

Connected Transactions and Continuing Connected Transactions

During the year ended December 31, 2021, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

Related Party Transactions

Details of the related party transactions of the Group for the year ended December 31, 2021 are set out in note 27 to the consolidated financial statements contained herein.

None of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent shareholders' approval, annual review and disclosure requirements in Chapter 14A of the Listing Rules.

Interests in Competitor

The Company does not hold any interests in our competitors.

Share Incentive Schemes

Pre-IPO Share Incentive Scheme

The Company's Pre-IPO Share Incentive Scheme was adopted pursuant to a resolution passed on March 25, 2013 for the primary purpose of providing incentives to directors, eligible employees and individual consultants who render services to the Group. For the details of the Pre-IPO Share Incentive Scheme, please refer to the disclosure in the Prospectus.

The Company has also established an employee trust to administer the scheme. A total of 117,000,000 Shares, representing all the Shares underlying the options and awards granted under the Pre-IPO Share Incentive Scheme, were issued to HLYY Limited, the nominee under the trust, to hold the Shares to satisfy the options and awards granted upon exercise/vesting. No further Shares will be allotted and issued to the HLYY Limited or the trustee for the purpose of the Pre-IPO Share Incentive Scheme (other than pursuant to Capitalization Issue, rights issue, sub-division or consolidation of shares in accordance with the Pre-IPO Share Incentive Scheme), and no further option or award will be granted under the Pre-IPO Share Incentive Scheme. As the Pre-IPO Share Incentive Scheme does not involve the grant of options to subscribe for any new Shares of the Company, it is not required to be subject to the provisions under Chapter 17 of the Listing Rules.

Post-IPO Share Option Scheme

The Company's Post-IPO Share Option Scheme was adopted by the resolutions in writing of all the Shareholders passed on August 26, 2018.

The purpose of the Post-IPO Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Post-IPO Share Option Scheme, with its broadened basis of participation, will enable our Group to reward our employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine the performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Stock Exchange, such 10% limit represents 105,191,330 Shares (the "General Scheme Limit"), but excluding any Shares which may be issued upon the exercise of the Over-allotment Option (as defined in the Prospectus). Unless otherwise approved by the Shareholders in general meeting, the number of Shares that may be granted to a participant under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial Shareholders (as defined in the Listing Rules), or the total number of Shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time. An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Post-IPO Share Option Scheme. The exercise price per Share under the Post-IPO Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before Listing); and (iii) the nominal value of a Share on the date of grant.

Grant offer letter and notification of grant of options

An offer shall be made to selected participants by a letter in duplicate which specifies in terms on which the option is to be grant and an offer shall be deemed to have been accepted and the options to which the offer relates shall be able deemed to have been granted and to have taken effective when the duplicate of the offer letter comprising acceptance of the duly signed by the grantee with ordinary shares, together with a remittance in favor of the Company of HK$1.00 with the Company at the principal place of business of the Company in Hong Kong (or at such other place and in such manner acceptable to the Company) within 20 business days from the date of this letter.

A consideration of HK$1.00 is payable on acceptance of the grant of an option.

The Post-IPO Share Option Scheme is valid and effective for a period of 10 years commencing from the Listing Date and up to September 14, 2028. The remaining life of the Post-IPO Share Option Scheme is approximately eight years.

As at 31 December 2021, the number of Shares in respect of the outstanding options granted under the Pre-IPO Share Incentive Scheme was 86,952,196 (2020: 95,362,673), representing approximately 8.24% (2020: 9.04%) of the Shares in issue as at the date of this report.

As at 31 December 2021, the number of Shares in respect of the outstanding options granted under the Post-IPO Share Option Scheme was 37,390,301 (2020: 30,766,194), representing approximately 3.54% (2020: 2.92%) of the Shares in issue as at the date of this report.

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Share Incentive Scheme and Post-IPO Share Option Scheme during the year ended December 31, 2021:

Category	Option type	Notes	Outstanding at January 1, 2021	Granted during year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding at December 31, 2021	Weighted average closing price per share (HK$)[a]
Category 1: Director									
Dr. Li CHEN	**Pre-IPO Scheme**								
	December 4, 2014	2	700,000	–	(500,000)	–	–	200,000	4.06
	January 11, 2016	3	750,000	–	–	–	–	750,000	–
	July 19, 2016	4	750,000	–	–	–	–	750,000	–
	March 6, 2017	5	1,500,000	–	–	–	–	1,500,000	–
	January 7, 2018	6	1,362,975	–	–	–	–	1,362,975	–
	April 3, 2018	7	4,608,750	–	–	–	–	4,608,750	–
	August 26, 2018	8	2,250,000	–	–	–	–	2,250,000	–
	Post-IPO Scheme								
	June 25, 2019	17	12,079,000	–	–	–	–	12,079,000	–
	March 22, 2021	26	–	3,000,000	–	–	–	3,000,000	–
			24,000,725	3,000,000	(500,000)	–	–	26,500,725	4.06
Mr. George Chien Cheng LIN	**Pre-IPO Scheme**								
	April 3, 2018	9	25,592,405	–	–	–	–	25,592,405	–
	Post-IPO Scheme								
	May 17, 2019	17	300,000	–	–	–	–	300,000	–
			25,892,405	–	–	–	–	25,892,405	–
	Total directors		49,893,130	3,000,000	(500,000)	–	–	52,393,130	4.06

(a) This represents the weighted average closing price of the Shares immediately before the dates on which the share options were exercised.

Category	Option type	Notes	Outstanding at January 1, 2021	Granted during year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding at December 31, 2021	Weighted average closing price per share (HK$)[(a)]
Category 2: Employees									
	Pre-IPO Scheme								
	March 25, 2013	10	2,408,000	–	(179,000)	–	–	2,229,000	4.15
	September 12, 2013	11	1,500,000	–	–	–	–	1,500,000	–
	December 4, 2014	2	4,480,000	–	(599,500)	–	–	3,880,500	4.00
	January 11, 2016	3	7,625,000	–	(300,000)	–	–	7,325,000	5.20
	July 19, 2016	4	–	–	–	–	–	–	–
	March 6, 2017	5	5,458,766	–	(343,766)	–	–	5,115,000	5.20
	July 24, 2017	12	1,155,000	–	(580,500)	–	–	574,500	4.70
	January 7, 2018	6	6,515,600	–	(2,365,145)	(276,103)	(140)	3,874,212	4.26
	April 3, 2018	7	11,705,355	–	(1,949,337)	(345,824)	(364)	9,409,830	4.58
	June 1, 2018	13	5,250,000	–	–	–	–	5,250,000	–
	August 26, 2018	8	5,573,822	–	(649,869)	(320,662)	(267)	4,603,024	4.41
	Post-IPO Scheme								
	October 29, 2018	18	75,000	–	–	–	–	75,000	–
	November 26, 2018	19	500,000	–	–	–	–	500,000	–
	May 15, 2019	17	7,206,351	–	–	(731,582)	(976,126)	5,498,643	–
	September 19, 2019	20	500,000	–	–	–	–	500,000	–
	Accepted:								
	January 3, 2020	*21*	*450,000*	–	–	*(177,084)*	–	*272,916*	–
	March 17, 2020	22	8,555,843	–	(243,461)	(1,333,309)	(1,336)	6,977,737	4.52
	April 3, 2020	23	200,000	–	–	–	–	200,000	–
	April 7, 2020	24	200,000	–	–	–	–	200,000	–
	August 18, 2020	25	500,000	–	–	–	–	500,000	–
	January 7, 2021	26	–	500,000	–	–	–	500,000	–
	March 22, 2021	27	–	6,000,000	–	(812,995)	–	5,187,005	–
	May 6, 2021	28	–	1,000,000	–	–	–	1,000,000	–
	August 30, 2021	29	–	200,000	–	–	–	200,000	–
	September 23, 2021	30	–	200,000	–	–	–	200,000	–
	Total employees		69,858,737	7,900,000	(7,210,578)	(3,997,559)	(978,233)	65,572,367	4.46
Category 3: Individual consultants	**Pre-IPO Scheme**								
	September 12, 2013	14	1,550,000	–	–	–	–	1,550,000	–
	December 4, 2014	2	150,000	–	–	–	–	150,000	–
	January 11, 2016	3	3,327,000	–	–	–	–	3,327,000	–
	March 15, 2016	15	25,000	–	–	–	–	25,000	–
	May 11, 2018	16	1,125,000	–	–	–	–	1,125,000	–
	Post-IPO Scheme								
	May 15, 2019	17	200,000	–	–	–	–	200,000	–
	Total individual consultants		6,377,000	–	–	–	–	6,377,000	–
	Total all categories		126,128,867	10,900,000	(7,710,578)	(3,997,559)	(978,233)	124,342,497	4.44
	Exercisable at the beginning and end of the year		84,050,356					99,421,338	
	Weighted average exercise price (HK$)		3.65	5.00	1.79	4.57	8.85	3.81	

Notes:

1. Unless stated otherwise, 25% of the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date (the "Standard Vesting Schedule"). The share options shall be valid for a period of ten years from the date upon which the offer for the grant is options is made by the Company.

2. With vesting commencement date of November 21, 2014 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.07 (equivalent to approximately HK$0.55).

3. With vesting commencement date of December 22, 2015 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.23 (equivalent to approximately HK$1.79).

4. With vesting commencement date of April 28, 2016 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.40 (equivalent to approximately HK$3.12).

5. With vesting commencement date of December 30, 2016 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

6. With vesting commencement date of December 29, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67) or approximately US$0.07 (equivalent to approximately HK$0.55).

7. With vesting commencement date of April 4, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67) or approximately US$0.25 (equivalent to approximately HK$1.95).

8. With vesting commencement date of August 1, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.37 (equivalent to approximately HK$2.89) or US$0.49 (equivalent to approximately HK$3.82).

9. With vesting commencement date of September 14, 2018 or December 22, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

10. With vesting commencement date of September 1, 2013 or November 1, 2012 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.07 (equivalent to approximately HK$0.55).

11. With vesting commencement date of November 1, 2010 or August 1, 2012 or February 1, 2013 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.07 (equivalent to approximately HK$0.55).

12. With vesting commencement date of July 17, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.07 (equivalent to approximately HK$0.55), or with vesting commencement date of August 15, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

13. With vesting commencement date of June 1, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.25 (equivalent to approximately HK$1.95) or approximately US$0.47 (equivalent to approximately HK$3.67).

14. With vesting commencement date of August 1, 2010 or February 1, 2012 and are exercisable in accordance with the vesting schedule that 25% of the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 24 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

15. With vesting commencement date of March 15, 2016 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested in 12 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of approximately US$0.27 (equivalent to approximately HK$2.11).

16. With vesting commencement date of September 14, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

17. With vesting commencement date of January 23, 2019 or November 11, 2019 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$8.866.

18. With vesting commencement date of October 29, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$7.192.

19. With vesting commencement date of November 26, 2018 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$7.970.

20. With vesting commencement date of September 19, 2019 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$6.80.

21. With vesting commencement date of November 13, 2019 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$6.64.

22. With grant date of March 17, 2020 and vesting commencement date of March 17, 2020 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$3.616. The closing price of the Shares immediately before the date on which the options were granted was HK$3.40.

23. With grant date of April 3, 2020 and vesting commencement date of April 3, 2020 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$3.000. The closing price of the Shares immediately before the date on which the options were granted was HK$3.00.

24. With grant date of April 7, 2020 and vesting commencement date of April 7, 2020 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$3.018. The closing price of the Shares immediately before the date on which the options were granted was HK$3.00.

25. With grant date of August 18, 2020 and vesting commencement date of August 18, 2020 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$7.184. The closing price of the Shares immediately before the date on which the options were granted was HK$7.08.

26. With grant date of January 7, 2021 and vesting commencement date of January 7, 2021 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$5.584. The closing price of the Shares immediately before the date on which the options were granted was HK$5.22.

27 With grant date of March 22, 2021 and vesting commencement date of March 22, 2021 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$4.984. The closing price of the Shares immediately before the date on which the options were granted was HK$4.83.

28. With grant date of May 6, 2021 and vesting commencement date of May 6, 2021 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$4.886. The closing price of the Shares immediately before the date on which the options were granted was HK$4.75.

29. With grant date of August 30, 2021 and vesting commencement date of August 30, 2021 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$4.56. The closing price of the Shares immediately before the date on which the options were granted was HK$4.56.

30. With grant date of September 23, 2021 and vesting commencement date of September 23, 2021 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$5.05. The closing price of the Shares immediately before the date on which the options were granted was HK$5.05.

Set out below are details of the restricted stock units granted under the Pre-IPO Share Incentive Scheme.

In November 2017, Mr. George Chien Cheng LIN entered into an employee agreement, pursuant to which he was granted equity incentives of options under Pre-IPO Share Incentive Scheme as disclosed above and the restricted stock units. Pursuant to the agreement, restricted stock units in respect of an aggregate of 7,422,975 Shares of the Company (as adjusted after Capitalization Issue) were granted to Mr. George Chien Cheng LIN under the Pre-IPO Share Incentive Scheme on April 3, 2018. Such restricted stock units are to be vested after a qualified HK IPO in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting dates. During the year ended December 31, 2021, the number of vested stock units was 1,855,752.

Principal Risks and Uncertainties

The Company has the following risks and uncertainties which may affect the results and business operations, some of which are inherent to the Company, some are inherent to the pharmaceutical sector, and some are from external sources.

- Drug approval related to dorzagliatin:

  Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and failure can occur at any stage of clinical development. The NMPA NDA approval process for dorzagliatin is complicated and, even though our NDA has been submitted to the NMPA and is under active review, and our Phase III results are successful, we may be required to conduct additional studies as a condition filing, receiving or maintaining NMPA approval. The Company maintains regular dialogue with the NMPA to ensure they are provided with the latest updates.

- Company reliance on third parties:

  We intend to continue to rely on third-party CMOs to produce dorzagliatin both for commercial production requirements in the near future. If we experience problems with our CMOs, the manufacturing of dorzagliatin could be delayed and our efforts to market dorzagliatin compromised. Our quality assurance team conducts regular quality checks, has set up with joint quality committees, and our clinical operations team conducts regular trainings for our CROs. We have partnered with Bayer to commercialize dorzagliatin in China (once NDA approval is received). Smooth cooperation with Bayer is critical in maximizing commercial sales in China.

- Dorzagliatin as cornerstone therapy:

  Dorzagliatin as a monotherapy or in combination with other T2D treatments may cause undesirable side effects that could delay or prevent its regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following regulatory approval, if any. The Company continues to plan for and conduct additional clinical trials and other studies to establish dorzagliatin's potential as a cornerstone therapy for T2D.

- National Reimbursement Drug List entry is not certain:

  Reimbursement may not be available for dorzagliatin in China, which could diminish our sales or affect our profitability. The Company continues to maintain regular dialogue with national and provincial level authorities.

- Retention of key staff members:

  Our continued success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel. The Company has regularly reviewed our compensation packages and benefits to ensure we remain competitive with the market.

- The Company currently only has one drug in the clinical trial process:

  Our future success depends substantially on the success in China of our only clinical drug candidate, dorzagliatin. We may fail to successfully commercialize dorzagliatin in China or experience significant delays in doing so, or we may not meet our goal of establishing dorzagliatin as a first-line standard of care in China, any of which could materially harm our business. The Company has committed substantial resources to ensuring the quality and development of dorzagliatin.

- The Company's key operations are in China:

  Currently, our pivotal registration trials are in China, and we expect to launch dorzagliatin in China first. There are potential risks associated with doing business primarily in one geographic region, and our future launch timeline could be impacted.

- We are a pre-revenue biopharmaceutical company with a limited operating history and a history of losses. We must obtain required regulatory approvals before we can market dorzagliatin and generate revenues.

Key Relationships

- Employees

  The Company's relationship with its employees are discussed in the "Environmental, Social and Governance Report" to be published within three months of this annual report.

- Key customers

  Since we are a pre-revenue biotech Company, we do not have any customers for the year ended December 31, 2021.

- Service Providers and Suppliers

  Our service providers and suppliers are mainly CROs, CMOs, SMOs and promotion service providers located in China, providing us with a range of services such as drug discovery, development, clinical trial expertise, and clinical and commercial manufacturing. We are heavily reliant on our suppliers to provide us services regarding our clinical trials, preclinical studies, as well as our manufacturing. We do not make material purchases of raw materials or equipment.

- Hospitals

  Our clinical trials are conducted in hospitals across China. We remain committed to offering hospitals and doctors related training and full support in conducting the clinical trials. We maintain a close relationship directly, through telephone calls, direct mail, visits, and training sessions. We also work with our CROs and SMOs to ensure that hospitals and doctors have the support they need to guarantee the quality of our clinical trials.

- Licensing Agreement with Roche

  We have entered into a research, development and commercialization agreement with Hoffmann-La Roche Inc. and F. Hoffmann-La Roche Ltd., or collectively, Roche in December 2011, under which we obtained an exclusive license under certain patents and know-how owned by Roche to develop, make, commission, use, sell, offer for sale, export and import Roche's proprietary GKA, RO5305552 (now referred to as dorzagliatin or HMS5552), worldwide in the licensed field of treatment of diabetes. The key U.S. patent licensed from Roche (U.S. 7,741,327) recites claims to compounds and pharmaceutical compositions thereof, and has an expiration date of March 9, 2029. We have the right to sublicense our rights to third parties. Under our agreement, we are required to make various upfront, milestone and royalty payments.

- Licensing Agreement with Bayer

  We have entered into a commercialization agreement and strategic partnership with Bayer Healthcare Company Ltd. in August 2020. Under the terms of the agreement, we received an upfront payment of RMB300 million in 2020, and additional payments could reach up to RMB4.18 billion if certain milestones are met. We will pay Bayer tiered service fees based on net sales in China, initially sharing equally in sales, with adjusting sales percentages based on agreed China net sales thresholds. We will continue to be the market authorization holder of dorzagliatin, and responsible for clinical development, registration, product supply and distribution, while Bayer as the promotion service provider will be responsible for the marketing, promotion, and medical education activities in China.

Employees and remuneration policy

As of December 31, 2021, the Group employed a total of 146 employees, as compared to a total of 162 employees as of December 31, 2020. The majority of the employees are employed in mainland China. For the year ended December 31, 2021, staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB163.3 million as compared to RMB183.3 million for the year ended December 31, 2020.

The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and agreements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve their working efficiency. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute during the year ended December 31, 2021.

The Company has also adopted a Pre-IPO Share Incentive Scheme and a Post-IPO Share Option Scheme. Please refer to the section headed "Share Incentive Schemes" in this annual report for further details.

Sufficiency of Public Float

The Company has maintained the public float as required by the Listing Rules during the year ended December 31, 2021.

Review of Annual Results

The consolidated financial results of the Group for the year ended December 31, 2021 has been audited by the Company's auditor, Deloitte Touche Tohmatsu, and reviewed by the Audit Committee of the Company, which consists of Mr. Walter Teh-ming KWAUK, Mr. William Robert KELLER and Mr. Yiu Wa Alec TSUI.

Auditor

The consolidated financial statements of the Group for the year ended December 31, 2021 have been audited by Deloitte Touche Tohmatsu, auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor at the AGM.

A resolution will be proposed at the AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company and to authorize the Board to fix the remuneration of the auditor.

By Order of the Board,
Hua Medicine
Dr. Li CHEN
Chief Executive Officer and Executive Director

Hong Kong, March 16, 2022

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

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

The Company has applied the principles and code provisions as set out in the CG Code contained in Appendix 14 of the Listing Rules. The Appendix 14 of the Listing Rules has been revised and renamed as "Corporate Governance Code" with effective from January 1, 2022. As this Corporate Governance Report covers the year ended December 31, 2021, all the corporate governance principles and code provisions mentioned herein refer to those stated in the CG Code, not the revised Corporate Governance Code (unless otherwise specified).

The Board is of the view that the Company has complied with all applicable code provisions as set out in the CG Code throughout the Reporting Period.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 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 throughout the Reporting Period.

The Company has also established the Code for Securities Transactions by Relevant Officers of the Company (the "Code") on terms 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. No incident of non-compliance of the Code by the relevant officers during the Reporting Period 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 would regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises two executive Directors, two non-executive Directors and four independent non-executive Directors.

The composition of the Board is as follows:

Executive Directors
Li CHEN *(Chief Executive Officer and Chief Scientific Officer)*
George Chien Cheng LIN *(Executive Vice President and Chief Financial Officer)*

Non-executive Directors
Robert Taylor NELSEN *(Chairman)*
Wei ZHAO *(appointed on March 16, 2022)*
Lian Yong CHEN *(resigned on March 16, 2022)*

Independent Non-executive Directors
Walter Teh-Ming KWAUK
William Robert KELLER
Junling LIU
Yiu Wa Alec TSUI

None of the members of the Board is related to one another.

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 18 to 25 of this annual report.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Robert Taylor NELSEN and Dr. Li CHEN, respectively. The Chairman 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.

Independent Non-executive Directors

During the Reporting Period, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

Each Director has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date, subject to renewal after the expiry of the then current term.

According to the Company's Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Besides, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Under the Articles of Association of the Company, every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Responsibilities of the Board and Management

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

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

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

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

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

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

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

The Group's senior management is responsible for the day-to-day management of the Group's business and is responsible for overseeing the general operation, business development, finance, marketing, and operations.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Pursuant to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, in order to ensure compliance and enhance their awareness of good corporate governance practices. The Company also arranges suitable professional development seminars and courses for the Directors from time to time.

The Directors informed the Company that they had received sufficient and relevant training and continuous professional development during the Reporting Period.

Record of training received by the Directors for the year ended December 31, 2021 are summarized as follows:

Directors	**Type of Training** [Note]
Executive Directors	
Li CHEN	A/B
George Chien Cheng LIN	A/B
Non-executive Directors	
Robert Taylor NELSEN	A/B
Lian Yong CHEN	A/B
Independent Non-executive Directors	
Walter Teh-Ming KWAUK	A/B
William Robert KELLER	A/B
Junling LIU	A/B
Yiu Wa Alec TSUI	A/B

Note:

Types of Training

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

B. Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Meetings and Directors' Attendance Records

Code provision A.1.1. of the CG Code stipulates that Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communications.

Apart from regular Board meetings, the Chairman has met with the independent non-executive Directors without the presence of other Directors in accordance with code provision A.2.7 of the CG Code.

The attendance records of the Directors at the Board meetings and general meetings of the Company during the Reporting Period are as follows:

	Attendance/No. of Meeting(s)	
Name of Directors	**Board Meetings**	**Annual General Meeting**
Executive Directors		
Li CHEN	5/5	1/1
George Chien Cheng LIN	5/5	1/1
Non-executive Directors		
Robert Taylor NELSEN (Chairman)	4/5	0/1
Lian Yong CHEN	5/5	1/1
Independent Non-executive Directors		
Walter Teh-Ming KWAUK	5/5	1/1
William Robert KELLER	5/5	1/1
Junling LIU	5/5	1/1
Yiu Wa Alec TSUI	5/5	1/1

Board Committees

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

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

Audit Committee

The Company established the Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision C.3.3 of the CG Code.

During the Reporting Period, the Audit Committee consisted of three members, namely Mr. Walter Teh-Ming KWAUK, Mr. William Robert KELLER and Mr. Yiu Wa Alec TSUI, independent non-executive Directors. Mr. Walter Teh-Ming KWAUK is the chairman of the Audit Committee.

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

During the Reporting Period, the Audit Committee held 4 meetings to review the annual and interim 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, engagement of non-audit services, relevant scope of works, connected transactions and arrangements for employees to raise concerns about possible improprieties.

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

Name of Members of the Audit Committee	Attendance
Walter Teh-Ming KWAUK (Chairman)	4/4
William Robert KELLER	4/4
Yiu Wa Alec TSUI	4/4

Remuneration Committee

The Company established the Remuneration Committee in compliance with Rules 3.25 and 3.26 of the Listing Rules and code provision B.1.2 of the CG Code.

During the Reporting Period, the Remuneration Committee consisted of three members, namely Mr. William Robert KELLER and Mr. Walter Teh-Ming KWAUK, independent non-executive Directors, and Dr. Lian Yong CHEN, non-executive Director. Mr. William Robert KELLER is the chairman of the Remuneration Committee. Mr. Junling LIU was appointed as a member of the Remuneration Committee with effect from March 16, 2022.

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 reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration.

During the Reporting Period, the Remuneration Committee held 4 meetings to review and make recommendations to the Board on the remuneration policy and packages and other related matters.

Details of the remuneration of the senior management by band are set out in the section headed "Remuneration of Directors and Senior Management".

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

Name of Members of the Remuneration Committee	Attendance
William Robert KELLER (Chairman)	4/4
Walter Teh-Ming KWAUK	4/4
Lian Yong CHEN	4/4

Nomination Committee

The Company established the Nomination Committee in compliance with code provisions A.5.1 and A.5.2 of the CG Code.

During the Reporting Period, the Nomination Committee consisted of three members, namely Mr. Robert Taylor NELSEN, non-executive Director, Mr. Junling LIU and Mr. William Robert KELLER, independent non-executive Directors. Mr. Robert Taylor NELSEN is the chairman of the Nomination Committee.

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

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. 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 character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee held 1 meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the annual general meeting. The Nomination Committee considered that an appropriate balance of diversity of perspectives of the Board is maintained.

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

Name of Members of the Nomination Committee	Attendance
Robert Taylor NELSEN (Chairman)	1/1
William Robert KELLER	1/1
Junling LIU	1/1

Board Diversity Policy

The Company has adopted a Board diversity policy (the "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.

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. In relation to reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience.

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.

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

Going forward, we will continue to work to enhance gender diversity of the Board. Our nomination committee will continue to use its best efforts to identify and recommend suitable female candidates to our Board for its consideration on appointment of a Director. We will also ensure that there is gender diversity when recruiting staff at mid to senior level so that we will continue to have a pipeline of female senior management and potential successors to our Board in due time to ensure gender diversity of the Board.

Director Nomination Policy

The Company has adopted a director nomination policy (the "Director Nomination Policy") which aims to set out the criteria and process in the nomination and appointment of directors of the Company, to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and to ensure the Board continuity 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 Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Director Nomination Policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

Save as disclosed above, no candidate was nominated for directorship and there was no change in the composition of the Board during the year ended December 31, 2021.

Strategy Committee

During the Reporting Period, the Strategy Committee consists of three members, namely Dr. Li CHEN, Executive Director, Mr. Robert Taylor NELSEN, non-executive Director, and Mr. Junling LIU, independent non-executive Director. Dr. Li CHEN is the chairman of the Strategy Committee.

The principal duties of the Strategy Committee include considering, reviewing and advising on the mid-term and long-term development strategies of the Company's operations and to supervise or monitor the implementation of the development strategies and business plans.

During the Reporting Period, the Strategy Committee held 1 meeting to supervise and monitor the implementation of the development strategies and business plans of the Company.

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

Name of Members of the Strategy Committee	Attendance
Li CHEN (Chairman)	1/1
Robert Taylor NELSEN	1/1
Junling LIU	1/1

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year ended December 31, 2021, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and written employee guidelines of the Company, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Risk Management and Internal Control

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

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and overseeing the management in the design, implementation and monitoring of the risk management and internal control systems.

The Audit Committee assists the Board by forming independent opinion on financial reporting process and the effectiveness of internal control and risk assessment systems, supervises audit process and performs other duties assigned by the Board.

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

During the Reporting Period, the Company has assessed the likelihood of risk occurrence, including providing the response plan to the global pandemic, adjusting and monitoring the risk management progress and has reported all the execution results and effectiveness of the systems to the Audit Committee and the Board.

The Company has adopted a series of internal control policies, procedures and programs designed to achieve effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control systems include the following:

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

Anti-fraud Policy – The Company has developed anti-fraud policy to implement measures and prevent fraudulent behavior.

Whistleblower Policy – The Company has implemented measures that enable employees to raise concerns on improper conducts related to financial reports, internal control and other aspects, to ensure the strict compliance with the Company's code of conduct.

Employee Handbook – The Employee Handbook has been adopted to define the rights and obligations of both the company and employees, to maintain a normal working order in the organization, improve work efficiency and protect the legitimate rights and interests of employees.

Procedural Document Management Policy – The Company has implemented the policy to regulate the lifecycle management of procedural documents and ensure the compliance of various business processes.

Connected Transactions – The Company has adopted the policy to ensure connected transactions comply with the Listing Rules.

Internal Audit Policy – The Company has established the policy during Reporting Period to regulate internal audit procedures and define roles and responsibilities.

Departments also conduct trainings and assessment regularly to identify risks that potentially impact the business of the Group.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including financial, operational and compliance controls, for the year ended December 31, 2021, and considered that such systems are effective and adequate.

Directors' Responsibility in respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2021.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 68 to 69 of this annual report.

Auditors' Remuneration

The remuneration paid to Deloitte Touche Tohmatsu ("Deloitte"), the external auditors of the Company, in respect of audit services and non-audit services for the year ended December 31, 2021 amounted to RMB1.67 million and RMB0.9 million, respectively.

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

Service Category	**Fees Paid/Payable RMB'000**
Audit Services	1,670
Non-audit Services	
– Interim review	680
– Special review	226
	2,576

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 18 to 25 of this annual report, for the year ended December 31, 2020 are set out below:

Remuneration band	Number of individuals
Below RMB2,500,000	1
RMB2,500,001 to RMB3,000,000	0
RMB3,000,001 to RMB3,500,000	1
RMB3,500,001 to RMB4,000,000	1
RMB4,000,001 to RMB4,500,000	1
RMB4,500,001 to RMB5,000,000	1
Above RMB5,000,000	3

Company Secretary

Ms. YUEN Wing Yan, Winnie ("Ms Yuen") of Tricor Services Limited has been engaged by the Company as the Company's company secretary. Ms. Yuen's primary contact person at the Company is Mr. George Chien Cheng LIN, executive Director and Chief Financial Officer.

Ms. Yuen has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year ended December 31, 2021.

Shareholders' Rights

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

Convening an Extraordinary General Meeting

The Company's Shareholders may convene an extraordinary general meeting ("EGM") or put forward proposals at Shareholders' meetings as follows:

- Pursuant to Article 12.3 of the Company's Articles of Association, EGM shall convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. EGM may also be convened on the written requisition of any one member which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

- Pursuant to Article 16.4 of the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

Putting Forwards Enquiries to the Board

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

Contact Details

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

Address	:	Suite 2202, Methodist House 36 Hennessy Road Wanchai, Hong Kong (For the attention of the Head of China IR - Mr. Chengde WANG)
Tel	:	+86(21) 38101803
Email	:	ir@huamedicine.com

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

Communication with Shareholders and Investor Relations

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

Constitutional Documents

The Articles of Association were adopted with effect from the Listing Date. Save as disclosed above, during the year ended December 31, 2021, the Company has not made any changes to the Articles of Association.

The Articles of Association are available on the websites of the Stock Exchange and the Company.

Policies relating to Shareholders

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HUA MEDICINE

(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Hua Medicine (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 70 to 135, which comprise the consolidated statement of financial position as of December 31, 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter

Risk of misstatement of research and development expenses	How our audit addressed the key audit matter
The Group incurred significant research and development ("R&D") expenses of approximately RMB187 million for the year ended December 31, 2021. A substantial portion of the Group's R&D expenses are comprised of service fees paid to contract research organizations ("CROs"), clinical site management operators ("SMOs"), and contract manufacturing organizations ("CMOs") (collectively referred as "Outsourced Service Providers"). The R&D activities with these Outsourced Service Providers are documented in detailed agreements and are typically performed over an extended period. Allocation of these expenses to the appropriate financial reporting period based on the progress of the research and development projects involves estimation. We identified cut-off of R&D expenses as a key audit matter due to the potential significance of misstatements to the financial statements that could arise from not recognising R&D expenses incurred for services provided by the Outsourced Service Providers in the appropriate reporting period.	Our procedures included, among others: • Obtaining an understanding of key controls of the management's basis and assessment in relation to the accrual process of the R&D expenses; • Inquiring the project managers and inspecting the relevant supporting documents to understand the progress of R&D projects, on a sample basis; and • Checking to agreements with the Outsourced Service Providers on a sample basis to challenge and evaluate the reasonableness of the key estimation adopted by the management in setting up the accrual basis for R&D projects.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in the independent auditor's report is Chan Men.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 16, 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2021

	Notes	Year ended December 31, 2021 RMB'000	2020 RMB'000
Other income	6	11,871	15,859
Other gains and losses	7	(10,373)	(41,827)
Administrative expenses		(134,835)	(140,084)
Finance costs	8	(3,950)	(4,396)
Other expenses	9	(1,612)	(1,724)
Research and development expenses		(186,835)	(220,962)
Loss before tax	9	(325,734)	(393,134)
Income tax expense	10	–	–
Loss for the year		(325,734)	(393,134)
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		454	(453)
Other comprehensive income (expense) for the year, net of income tax		454	(453)
Total comprehensive expense for the year		(325,280)	(393,587)
Loss per share	14	RMB	RMB
Basic and diluted		(0.34)	(0.41)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2021

	Notes	As of December 31, 2021 RMB'000	2020 RMB'000
Non-current assets			
Plant and equipment	16	57,942	49,341
Right-of-use assets	17	98,658	74,177
Intangible assets	18	9,026	3,387
Pledged bank deposits	20	3,130	–
Prepayments and other receivables	19	30,197	26,339
		198,953	153,244
Current assets			
Prepayments and other receivables	19	24,666	13,187
Pledged bank deposits	20	4,696	–
Bank balances and cash	20	675,238	1,032,090
		704,600	1,045,277
Current liabilities			
Trade and other payables	21	79,738	80,794
Lease liabilities	22	13,296	11,503
Deferred income	24	13,850	14,250
		106,884	106,547
Net Current Assets		597,716	938,730
Total Assets Less Current Liabilities		796,669	1,091,974
Non-current liabilities			
Lease liabilities	22	58,232	69,212
Contract liabilities	23	283,019	283,019
Deferred income	24	5,087	7,248
		346,338	359,479
Net Assets		450,331	732,495

	Notes	As of December 31, 2021 RMB'000	2020 RMB'000
Capital and reserves			
Share capital	25	7,211	7,209
Treasury shares held in trust	25	(626)	(690)
Reserves		443,746	725,976
Equity attributable to owners of the Company		450,331	732,495
Total Equity		450,331	732,495

The consolidated financial statements on pages 70 to 135 were approved and authorized for issue by the directors of the Company on March 16, 2022 and are signed on its behalf by:

Dr. Li Chen
DIRECTOR

Mr. George Chien Cheng Lin
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2021

	Attributable to owners of the Company							
	Share capital RMB'000	Treasury shares held in trust RMB'000	Share premium RMB'000	Other reserve RMB'000	Share-based payments reserve RMB'000	Translation Reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
As of January 1, 2020	7,209	(729)	5,893,318	(9,353)	147,445	–	(4,977,270)	1,060,620
Loss for the year	–	–	–	–	–	–	(393,134)	(393,134)
Other comprehensive expense for the year	–	–	–	–	–	(453)	–	(453)
Total comprehensive expense for the year	–	–	–	–	–	(453)	(393,134)	(393,587)
Options exercised to purchase ordinary shares under the trust (Note 25 (a))	–	26	6,520	(26)	–	–	–	6,520
Restricted stock units vested under the trust (Note 25 (b))	–	13	–	(13)	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	58,942	–	–	58,942
As of December 31, 2020	7,209	(690)	5,899,838	(9,392)	206,387	(453)	(5,370,404)	732,495
Loss for the year	–	–	–	–	–	–	(325,734)	(325,734)
Other comprehensive income for the year	–	–	–	–	–	454	–	454
Total comprehensive expense for the year	–	–	–	–	–	454	(325,734)	(325,280)
Exercise of share options (Note 25 (c/d))	2	51	10,419	(51)	–	–	–	10,421
Restricted stock units vested under the trust (Note 25 (e))	–	13	–	(13)	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	32,695	–	–	32,695
As of December 31, 2021	7,211	(626)	5,910,257	(9,456)	239,082	1	(5,696,138)	450,331

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2021

	Year ended December 31	
	2021	2020
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Loss before tax	(325,734)	(393,134)
Adjustments for:		
Bank interest income	(5,036)	(4,370)
Income from government grants	(960)	(5,750)
Rent concession	(345)	(2,589)
Depreciation of equipment	11,984	4,949
Depreciation of right-of-use assets	18,853	13,177
Amortization of intangible assets	752	322
Finance costs	3,950	4,396
Share-based payment expense	32,695	58,942
Loss on disposal of equipment	76	–
Gain on termination of lease	(20)	–
Net unrealized foreign exchange losses	9,972	30,803
Operating cash flows before movements in working capital	(253,813)	(293,254)
Increase in prepayments and other receivables	(13,622)	(904)
Decrease in trade and other payables	(2,514)	(19,905)
(Increase) decrease in value added tax recoverable	(3,032)	4,338
Increase in deferred income	–	5,800
Increase in contract liabilities	–	283,019
NET CASH USED IN OPERATING ACTIVITIES	(272,981)	(20,906)
INVESTING ACTIVITIES		
Interest received from bank	5,688	6,372
Proceeds from disposal of equipment	73	–
Purchase of plant and equipment	(20,196)	(24,368)
Payments for right-of-use assets	(40,304)	–
Purchase of intangible assets	(6,391)	(1,325)
Receipt of government grants	–	5,750
Withdraw of rental deposits	814	162
Payments for rental deposits	(77)	(677)
Placement of pledged bank deposits	(7,826)	–
NET CASH USED IN INVESTING ACTIVITIES	(68,219)	(14,086)

	Note	Year ended December 31 2021 RMB'000	2020 RMB'000
FINANCING ACTIVITIES			
Proceeds from exercise of share options		10,349	7,631
Repayments of leases liabilities		(16,483)	(14,893)
NET CASH USED IN FINANCING ACTIVITIES	33	(6,134)	(7,262)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(347,334)	(42,254)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,032,090	1,105,600
Effect of exchange rate changes		(9,518)	(31,256)
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH		675,238	1,032,090

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

1. General information

Hua Medicine (the "Company") was established in the Cayman Islands as an exempted company with limited liability on November 10, 2009, and its shares are listed on The Stock Exchange of Hong Kong Limited on September 14, 2018 (the "Listing Date"). The address of the registered office and the principal place of business of the Company are set out in the section headed "Corporate Information" to the annual report. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as "Group") are principally engaged in developing a global first-in-class oral drug, Dorzagliatin or HMS5552, for the treatment of Type 2 diabetes.

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

2. Application of amendments to international financial reporting standards ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group has early applied the Amendment to IFRS 16 *Covid-19-Related Rent Concessions beyond June 30, 2021*.

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

Impacts on early application of Amendment to IFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021

The Group has early applied the amendment in the current year. The amendment extends the availability of the practical expedient in paragraph 46A of IFRS 16 Leases ("IFRS 16") by one year so that the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The application of this amendment has had no material impact on the Group's financial positions and performance for the current and prior years.

2. Application of amendments to international financial reporting standards ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective

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

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

[1] Effective for annual periods beginning on or after January 1, 2022

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

[3] Effective for annual periods beginning on or after a date to be determined

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

3. Basis of preparation of consolidated financial statements and significant accounting policies

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

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

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies

Basis of consolidation

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

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

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

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

Revenue from contracts with customers

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

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Revenue from contracts with customers (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

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

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. It is assessed for impairment in accordance with IFRS 9. 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.

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.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Leases

Definition of a lease

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

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee

Allocation of consideration to components of a contract

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

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

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets (Continued)

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

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

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

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

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

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

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

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

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

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise (Note 7).

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

Government grants

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Government grants (Continued)

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings in the course of construction for production, supply or administrative purposes and leasehold improvement in the course of construction are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Intangible assets

Intangible assets acquired separately

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure

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

An internally-generated intangible asset arising from development activities is recognized if, and only if, all of the following have been demonstrated:

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

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

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

Employee benefits

Retirement benefit costs

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Employee benefits (Continued)

Short-term employee benefits

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

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

Share-based payments

Equity-settled share-based payment transactions

Share options/restricted stock units granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments is determined at the grant date without taking into consideration all non-market vesting conditions and the equity-settled share-based payments are expensed by tranche (each date on which any portion of option granted shall be vested is hereinafter referred to as a "Vesting Date" and each tranche on which any portion of option granted shall be vested is hereinafter referred to as a "Tranche") on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimates of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the share-based payments reserve.

When the share options are exercised or when the restricted stock units are vested, the Company transfers the treasury shares into ordinary shares or issues new ordinary shares, and the amount previously recognized in the share option reserve will continue to be held in share-based payments reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in the share-based payment reserve will continue to be held in share-based payments reserve.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Share-based payments (Continued)

Share options granted to non-employees

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognized as expenses (unless the goods or services qualify for recognition as assets).

Taxation

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

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Taxation (Continued)

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

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

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

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

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

Current and deferred tax are recognized in profit or loss.

Impairment on plant and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Impairment on plant and equipment, right-of-use assets and intangible assets (Continued)

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

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

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

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets, Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributed to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

By default, all other financial assets are subsequently measured at FVTPL.

Amortized cost and interest income

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

Interest income is recognized in profit or loss and is included in the "other income" line item.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including cash and cash equivalents, pledged bank deposits and other receivables) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk

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

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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

Definition of default

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

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Credit-impaired financial assets

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

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

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

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

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

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of other receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

Measurement and recognition of ECL

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

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL (Continued)

ECL for bank balances and pledged bank deposits are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

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

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

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

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

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of other receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

All financial liabilities held by the Group are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

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

Treasury shares

Own equity instruments which held by the Company or the Group (treasury shares) are recognized directly in equity at cost. No gain or loss is recognized in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

4. Critical accounting judgements and key source of estimation uncertainty

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

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

Critical judgement in applying accounting policies

The following is the critical judgement, which has the most significant effect on the amounts recognized in the consolidated financial statements.

Internal generated research and development expenses

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

Key source of estimation uncertainty

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

Estimation of research and development expenses

The Group rely on global contract research organizations (CROs), clinical site management operators (SMOs), and contract manufacturing organizations (CMOs) to conduct, supervise, and monitor the Group's ongoing clinical trials in China. Determining the amounts of research and development expenses incurred up to the end of each reporting period requires the management of the Group to estimate and measure the progress of receiving research and development services under the CROs, SMOs and CMOs contracts.

Deferred tax assets

As at December 31, 2021, no deferred tax asset has been recognised on the tax losses of RMB1,584,355,000. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a recognition takes place.

5. Segment information

For the purpose of resources allocation and performance assessment, the Group's chief executive officer, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment and no further analysis of this single segment is presented.

The Group did not record any revenue during the reporting period and the Group's non-current assets are substantially located in the PRC, accordingly, no analysis of geographical segment is presented.

6. Other income

	Year ended December 31	
	2021	**2020**
	RMB'000	**RMB'000**
Bank interest income	5,036	4,370
Government grants and subsidies (Note)	6,490	8,664
Rent concessions	345	2,825
	11,871	15,859

Note:

Government grant related to income received as compensation for future research and development costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to incomes were recorded in deferred income when received and recognized in profit or loss when related costs are subsequently incurred and the Group received government acknowledge of compliance.

Other government grants related to income that are receivable as compensation for research and development expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become collectable.

The government grants related to assets are received to compensate the right of use assets. The grants shall be recognised in profit or loss on a systematic basis.

7. Other gains and losses

Other gains and losses mainly represent the foreign exchange losses and gains during the years ended December 31, 2021 and 2020.

8. Finance costs

	Year ended December 31	
	2021	2020
	RMB'000	RMB'000
Interest on lease liabilities	3,950	4,396

9. Loss before tax

Loss before tax for the year has been arrived at after charging (crediting):

	Year ended December 31	
	2021	2020
	RMB'000	RMB'000
Depreciation of equipment	11,984	4,949
Depreciation of right-of-use assets	19,189	20,132
Amortization for intangible assets	752	322
Total depreciation and amortization	31,925	25,403
Capitalized in construction in progress	(336)	(6,955)
	31,589	18,448
Other expenses (Note a)	1,612	1,724
Staff costs (including directors' emoluments):		
– Salaries and other benefits	130,579	124,339
– Retirement benefit scheme contributions (Note b)	11,162	4,071
– Share-based payment	32,695	58,942
	174,436	187,352
Covid-19-related rent concessions	(345)	(2,825)
Auditors' remuneration		
– Audit services	1,670	1,720
– Non-audit services	906	1,280
	2,576	3,000
Expense relating to short-term leases (Note 17)	1,316	1,686

Note a: In 2021, the Company donated US Dollars ("US$") 0.25 million (equivalent to RMB1,612,000) (2020: US$0.25 million(equivalent to RMB1,724,000)) for establishing a type 2 diabetes research fund in the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania, USA.

Note b: The local government in mainland China granted the reduction of social insurance contributions from February to December in 2020 due to COVID-19. No such reduction was granted in 2021.

10. Income tax expense

The Company was incorporated in the Cayman Islands and is exempted from income tax.

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's Hong Kong subsidiary that was subject to Hong Kong profit tax during the reporting period.

Under the Law of the PRC of Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiary is 25% during the reporting period.

The subsidiary incorporated in the United States are subject to Federal and State Income taxes, the effective combined income tax rate is 21% for the year ended December 31, 2021.

The tax charge for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended December 31	
	2021	**2020**
	RMB'000	**RMB'000**
Loss before tax	325,734	393,134
Income tax credit calculated at 25%	(81,434)	(98,284)
Tax effect of income not taxable for tax purpose	(295)	(212)
Tax effect of expenses that are not deductible for tax purpose	18,911	31,887
Effect of research and development expenses that are additionally deducted	(26,846)	(30,743)
Effect of other deductible temporary differences not recognised	1,240	77,466
Effect of tax losses not recognized	88,424	19,886
Income tax expenses recognized in profit or loss	–	–

The Group has unused tax losses of RMB1,584,355,000 and RMB1,330,857,000, and other deductible temporary differences of RMB314,826,000 and RMB309,864,000, available for offset against future profits as of December 31, 2021 and 2020 respectively. Deferred taxation had not been recognized on the unused tax losses due to the unpredictability of future profit streams.

10. Income tax expense (Continued)

The unrecognized tax losses will be carried forward and expire in years as follows:

	As of December 31	
	2021	2020
	RMB'000	RMB'000
2021	–	94,820
2022	203,120	203,120
2023	439,116	439,116
2024	493,907	493,907
2025	75,949	94,313
2026	360,190	–
Indefinite	12,073	5,581
	1,584,355	1,330,857

11. License agreement

In December 2011, the Group entered into a research, development and commercialization agreement ("GKA Agreement") with Hoffman-La Roche Inc., and F. Hoffman-La Roche AG (collectively referenced as "Roche") under which Roche granted the Group an exclusive license of patent rights, know-how and regulatory filings with respect to a compound which is a glucokinase activator to research, develop and commercialize products ("Licensed Product") in the field of diabetes in the licensed territory ("Licensed Territory"). Pursuant to the GKA Agreement, the Group made US$2,000,000 non-refundable upfront payment to Roche in 2012.

In 2017, the Group made US$1,000,000 milestone payment to Roche upon the commencement of clinical trial Phase III in the PRC (excluding Hong Kong and Macau) for the Licensed Product.

In 2021, the Group made US$1,000,000 milestone payment to Roche upon NDA filing in the PRC (excluding Hong Kong and Macau) to the National Medical Products Administration.

The Group is further obligated to make US$3,000,000 milestone payments upon the achievement of development of the Licensed Product through new drag approval in the PRC (excluding Hong Kong and Macau) and US$33,000,000 in the Licensed Territory other than the PRC (excluding Hong Kong and Macau). Upon commercialization, the Group is contingently obligated to make US$15,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US$500,000,000 and US$40,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US$1,000,000,000. The Group is also obligated to make royalty payments at the applicable incremental royalty rate based on sales of the Licensed Product.

12. Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company for the service provided to the Group during the reporting period are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Performance based bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment RMB'000	Total RMB'000
For the year ended December 31, 2021						
Executive directors						
Dr. Li CHEN*	–	4,646	5,424	139	13,647	23,856
Mr. George Chien Cheng LIN	–	3,382	1,626	15	2,063	7,086
Non-executive directors						
Mr. Robert T. NELSEN	–	–	–	–	–	–
Dr. Lian Yong CHEN	–	–	–	–	–	–
Independent non-executive directors						
Mr. Walter Teh-Ming KWAUK	540	–	–	–	–	540
Mr. William Robert KELLER	540	–	–	–	–	540
Mr. Junling LIU	450	–	–	–	–	450
Mr. Yiu Wa Alec TSUI	450	–	–	–	–	450
	1,980	8,028	7,050	154	15,710	32,922

12. Directors' and chief executive's emoluments (Continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Performance based bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment RMB'000	Total RMB'000
For the year ended December 31, 2020						
Executive directors						
Dr. Li CHEN*	–	4,695	2,511	68	20,871	28,145
Mr. George Chien Cheng LIN	–	3,573	2,009	16	5,520	11,118
Non-executive directors						
Mr. Robert T. NELSEN	–	–	–	–	–	–
Dr. Lian Yong CHEN	–	–	–	–	–	–
Independent non-executive directors						
Mr. Walter Teh-Ming KWAUK	450	–	–	–	–	450
Mr. William Robert KELLER	450	–	–	–	–	450
Mr. Junling LIU	450	–	–	–	–	450
Mr. Yiu Wa Alec TSUI	450	–	–	–	–	450
	1,800	8,268	4,520	84	26,391	41,063

* Chief Executive Officer

The executive directors' emoluments shown above were for their service in connection with the management of the affairs of the Company and the Group.

The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

None of the directors of the Company has waived any emoluments during the reporting period.

Certain directors of the Company were granted share options and restricted stock units in respect of their services to the Group. Details of the share-based payment transactions are set out in Note 26.

During the year, there were no loans, quasi-loans or other dealings in favor of the directors, their controlled bodies corporate and connected entities (2020: nil).

13. Five highest paid employees

The five highest paid individuals of the Group included two directors of the Company (2020: two), details of whose remuneration are set out in Note 12 above. Details of the remuneration for the remaining three highest paid employees (2020: three) are as follows:

	Year ended December 31	
	2021	2020
	RMB'000	RMB'000
Salaries and other benefits	7,626	5,057
Retirement benefit scheme contributions	416	203
Performance based bonus	3,832	2,709
Share-based payment	2,781	4,588
	14,655	12,557

The number of these employees (including directors) whose remuneration fell within the following bands is as follows:

	Year ended December 31	
	2021	2020
	No. of employees	No. of employees
Hong Kong Dollars ("HK$")		
HK$3,500,001 to HK$4,000,000	–	1
HK$4,500,001 to HK$5,000,000	–	1
HK$5,000,001 to HK$5,500,000	2	–
HK$5,500,001 to HK$6,000,000	–	1
HK$6,500,001 to HK$7,000,000	1	–
HK$8,000,001 to HK$8,500,000	1	–
HK$12,500,001 to HK$13,000,000	–	1
HK$28,000,001 to HK$28,500,000	1	–
HK$31,500,001 to HK$32,000,000	–	1

Certain non-directors highest paid employees were granted share options in respect of their services to the Group. Details of the share-based payment transactions are set out in Note 26.

14. Loss per share

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Loss figures are calculated as follows:

	Year ended December 31	
	2021	2020
	RMB'000	RMB'000
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	(325,734)	(393,134)

Number of Shares:

	Year ended December 31	
	2021	2020
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	957,488,541	950,508,749

The computation of basic loss per share for the years ended December 31, 2021 and 2020 respectively excluded the unvested restricted stock units of the Company. Details of these restricted stock units are set out in Note 26.

The computation of diluted loss per share for the year ended December 31, 2021 and 2020 did not assume the exercise of share options and vesting of restricted stock units since their assumed exercise would result in a decrease in loss per share.

15. Dividends

No dividend was paid or declared by the Company during the years ended December 31, 2021 and 2020.

16. Plant and equipment

	Motor vehicles RMB'000	Experimental equipment RMB'000	Furniture fixtures and equipment RMB'000	Leasehold improvement RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Cost						
At January 1, 2020	1,334	3,888	8,214	2,612	997	17,045
Additions	–	992	991	239	41,080	43,302
Transfer from CIP	–	1,146	3,675	36,406	(41,227)	–
At December 31, 2020	1,334	6,026	12,880	39,257	850	60,347
Additions	–	163	1,666	226	18,679	20,734
Transfer from CIP	–	–	35	576	(611)	–
Disposals	–	–	(497)	–	–	(497)
At December 31, 2021	1,334	6,189	14,084	40,059	18,918	80,584
Accumulated depreciation						
At January 1, 2020	693	282	3,526	1,556	–	6,057
Charge for the year	224	596	2,290	1,839	–	4,949
At December 31, 2020	917	878	5,816	3,395	–	11,006
Charge for the year	152	839	3,015	7,978	–	11,984
Disposals	–	–	(348)	–	–	(348)
At December 31, 2021	1,069	1,717	8,483	11,373	–	22,642
Carrying amount						
At December 31, 2021	265	4,472	5,601	28,686	18,918	57,942
At December 31, 2020	417	5,148	7,064	35,862	850	49,341

The above items of plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values over the following estimated useful lives:

Motor vehicles	4 years
Experimental equipment	7 years
Furniture, fixtures and equipment	3-5 years
Leasehold improvement	Over the shorter of the lease term or five years

17. Right-of-use assets

	Leasehold lands RMB'000	Leasehold buildings RMB'000	Motor vehicles RMB'000	Total RMB'000
As of December 31, 2021				
Carrying amount	39,968	58,690	–	98,658
As of December 31, 2020				
Carrying amount	–	74,177	–	74,177
For the year ended December 31, 2021				
Depreciation charge	336	18,853	–	19,189
Capitalised in construction in progress	(336)	–	–	(336)
	–	18,853	–	18,853
For the year ended December 31, 2020				
Depreciation charge	–	20,056	76	20,132
Capitalised in construction in progress	–	(6,955)	–	(6,955)
	–	13,101	76	13,177

	Year ended December 31 2021 RMB'000	2020 RMB'000
Expense relating to short-term leases (Note (a))	1,316	1,686
Total cash outflow for leases (Note (b))	58,103	16,343
Additions to right-of-use assets	44,357	3,823
Decrease in right-of-use assets due to early termination	(687)	–

Notes:

(a) The Group regularly entered into short-term leases for motor vehicles and apartments. As of December 31, 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

(b) Amount includes payments of leasehold lands, principal and interest portion of lease liabilities and short-term leases.

For both years, the Group leases various offices, apartments and vehicles for its operations. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

17. Right-of-use assets (Continued)

Restrictions or covenants on leases

Lease liabilities of RMB71,528,000 are recognised with related right-of-use assets of RMB58,690,000 as of December 31, 2021 (2020: lease liabilities of RMB80,715,000 and related right-of-use assets of RMB74,177,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Rent concessions

During the year ended 31 December 2021, lessors of the certain office building provided rent concessions to the Group. These rent concessions incurred as a direct consequence of Covid-19 pandemic and met of all of the conditions in IFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. In 2021, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of RMB345,000 (2020: RMB2,825,000) were recognized as negative variable lease payments.

18. Intangible assets

	Intellectual property (Note 11) RMB'000	Software RMB'000	Total RMB'000
Cost			
As of January 1, 2020	–	2,138	2,138
Additions	–	1,729	1,729
As of December 31, 2020	–	3,867	3,867
Additions	6,391	–	6,391
As of December 31, 2021	6,391	3,867	10,258
Amortization			
As of January 1, 2020	–	158	158
Charge for the year	–	322	322
As of December 31, 2020	–	480	480
Charge for the year	–	752	752
As of December 31, 2021	–	1,232	1,232
Carrying amount			
As of December 31, 2021	6,391	2,635	9,026
As of December 31, 2020	–	3,387	3,387

18. Intangible assets (Continued)

The above items of intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Intellectual property	10 years
Software	8-10 years

19. Prepayments and other receivables

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Prepayments for research and development services	14,303	2,146
Utility and rental deposits	5,271	6,008
– non-current	4,609	4,194
– current	662	1,814
Value add tax recoverable – non-current	24,942	21,910
Interest receivables	52	704
Other receivables for considerations of options exercised	359	287
Others	9,936	8,471
– non-current	646	235
– current	9,290	8,236
	54,863	39,526
Analysis as		
– non-current	30,197	26,339
– current	24,666	13,187
	54,863	39,526

20. Bank balances and cash/pledged bank deposits

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of six months or less. The short term bank deposits carry interests at market rates which ranged from 0.001% to 1.95% as of December 31, 2021 (2020: 0.001% to 2.30%) per annum.

Pledged bank deposits are for the performance guarantees to the Management Committee of Lingang New Area, Shanghai Pilot Free Trade Zone, China to secure commencement and completion of the factory construction and launch of production.

Deposits amounting to RMB4,696,000 (2020: nil) carry fixed interest rate of 1.50% and have been pledged to secure commencement of the factory construction. These deposits will be released within 10 working days upon the commencement of the factory construction, if such commencement is before May 13, 2022. Deposits amounting to RMB1,565,000 (2020: nil) carry fixed interest rate of 2.75% and have been pledged to secure completion of the factory construction. These deposits will be released within 10 working days upon the completion of the factory construction, if such completion is before May 13, 2024. The remaining deposits amounting to RMB1,565,000 (2020: nil) carry fixed interest rate of 2.75% and have been pledged to secure production of the factory. These deposits will be released within 10 working days upon the launch of production, if such launch is before November 12, 2024.

Bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As of December 31,	
	2021	**2020**
	RMB'000	**RMB'000**
US$	362,793	444,063
HK$	40,487	43,629
Taiwan Dollars ("TWD")	3	3

21. Trade and other payables

	As of December 31, 2021 RMB'000	As of December 31, 2020 RMB'000
Trade payables	23,785	25,821
Other payables	4,071	4,179
Accrued leasehold improvement expenditure	1,604	12,383
Construction expenditure	10,982	–
Payroll and bonus payables	32,149	32,285
Others	7,147	6,126
	79,738	80,794

The average credit period on purchases of goods/services ranges up to 30 days.

The ageing analysis of the trade payables presented based on the invoice date at the end of reporting period is as follows:

	As of December 31, 2021 RMB'000	As of December 31, 2020 RMB'000
Uninvoiced or within 30 days	23,785	25,821
	23,785	25,821

Analysis of trade and other payables denominated in currency other than the functional currencies of the relevant group entities is set out below:

	As of December 31, 2021 RMB'000	As of December 31, 2020 RMB'000
US$	339	493

22. Lease liabilities

	As of December 31, 2021 RMB'000	As of December 31, 2020 RMB'000
Lease liabilities payable:		
Within one year	13,296	11,503
Within a period of more than one year but not more than two years	19,020	11,720
Within a period of more than two years but not more than five years	39,212	57,492
Within a period of more than five years	–	–
	71,528	80,715
Less: Amount due for settlement with 12 months shown under current liabilities	(13,296)	(11,503)
Amount due for settlement after 12 months shown under non-current liabilities	58,232	69,212

The incremental borrowing rates applied to lease liabilities range from 4.89% to 5.34% (2020: from 4.89% to 5.34%).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HK$ RMB'000
As of December 31, 2021	262
As of December 31, 2020	698

23. Contract liabilities

	As of December 31, 2021 RMB'000	As of December 31, 2020 RMB'000
Advance from a customer for exclusive distribution rights	283,019	283,019

In December 2020, the Group received an advance payment from a customer to grant it the exclusive distribution rights on the licensed products after the Group obtain the new drug approval in China from the local authorities.

24. Deferred income

	As of December 31, 2021 RMB'000	As of December 31, 2020 RMB'000
Government grants received		
– current liabilities	13,850	14,250
– non-current liabilities	5,087	7,248
	18,937	21,498

During the years ended December 31, 2021 and 2020, the Group received subsidies related to its research and development activities. The grants were recognized in profit or loss as other income upon the Group complying with the conditions attached to the grants and the government acknowledged acceptance.

25. Share capital

The details of the changes of the Company's authorized and issued and fully paid ordinary shares during the year ended December 31, 2021 and 2020 are set out as below:

	Authorized Number of shares	US$
Ordinary shares of US$0.001 each		
As of January 1, 2020, December 31, 2020 and December 31, 2021	2,000,000,000	2,000,000

	Issued and fully paid Number of shares	US$	Shown in the consolidated statement of financial position as RMB'000
Ordinary shares of US$0.001 each			
As of January 1, 2020 and December 31, 2020	1,054,893,800	1,054,894	7,209
Issue of shares (Note (d))	243,461	243	2
As of December 31, 2021	1,055,137,261	1,055,137	7,211

25. Share capital (Continued)

The details of the treasury shares held in trust are set out as below:

	Number of treasury shares	US$	Shown in the consolidated statement of financial position as RMB'000
Treasury shares held in trust as of January 1, 2020	106,584,257	106,584	729
Options exercised to purchase ordinary shares under the trust (Note (a))	(3,817,764)	(3,818)	(26)
Restricted stock units vested under the trust (Note (b))	(1,855,752)	(1,856)	(13)
Treasury shares held in trust as of December 31, 2020	100,910,741	100,910	690
Options exercised to purchase ordinary shares under the trust (Note (c))	(7,467,117)	(7,467)	(51)
Restricted stock units vested under the trust (Note (e))	(1,855,752)	(1,856)	(13)
Treasury shares held in trust as of December 31, 2021	91,587,872	91,587	626

As of December 31, 2021 and 2020, shares are held in trust including 90,196,091 and 97,663,208 shares for outstanding options (including forfeited and lapsed shares of 943,360 and 762,582 which were originally entitled by resigned employees in 2021 and 2020, respectively) and 1,391,781 and 3,247,533 shares for unvested restricted stock units and are disclosed separately in treasury shares since the Company has control over the Nominee in 2021 and 2020, respectively.

Notes:

(a) During the year ended December 31, 2020, several employees and consultants exercised their right, evidenced by corresponding option agreements under the Company's Pre-IPO Share Incentive Scheme, to subscribe 3,817,764 ordinary shares of the Company at the average exercise price of HK$1.89 per share for an aggregate consideration equivalent to RMB6,520,000.

(b) During the year ended December 31, 2020, 1,855,752 restricted stock units granted to Mr. George Chien Cheng Lin were vested at a par value of US$0.001 each.

(c) During the year ended December 31, 2021, several employees exercised their right, evidenced by corresponding option agreements under the Company's Pre-IPO Share Incentive Scheme, to subscribe 7,467,117 ordinary shares of the Company at the average exercise price of HK$1.55 per share for an aggregate consideration equivalent to RMB9,729,000.

(d) During the year ended December 31, 2021, several employees exercised their right, evidenced by corresponding option agreements under the Company's Post-IPO Share Incentive Scheme, to subscribe 243,461 ordinary shares of the Company at the average exercise price of HK$3.37 per share for an aggregate consideration equivalent to RMB692,000.

(e) During the year ended December 31, 2021, 1,855,752 restricted stock units granted to Mr. George Chien Cheng Lin were vested at a par value of US$0.001 each.

26. Share-based payment transactions

On August 26, 2018, the Company adopted the pre-IPO share incentive scheme (the "Pre-IPO Share Incentive Scheme") and established an employee trust to administer the scheme. A total of 7,800,000 ordinary shares of the Company, representing all the Company's shares underlying the Pre-IPO Scheme (defined as below) and the restricted stock units granted under the Pre-IPO Share Incentive Scheme, were issued to, the Nominee, to hold such shares to satisfy the options and restricted stock units granted upon exercise/vesting. No further Company's shares will be allotted and issued to the Nominee for the purpose of the Pre-IPO Share Incentive Scheme (other than pursuant to the capitalization issue, rights issue, sub-division or consolidation of shares in accordance with the Pre-IPO Share Incentive Scheme), and no further option or award will be granted under the Pre-IPO Share Incentive Scheme.

The Company also conditionally adopted a post-IPO share option scheme (the "Post-IPO Scheme") on August 26, 2018, which became effective on the Listing Date.

The history of the issuance of the share option schemes, restricted stock units under the Pre-IPO Share Incentive Scheme and Post-IPO Scheme is set out below.

Equity-settled share option scheme of the Company

The Company's Pre-IPO share option scheme (the "Pre-IPO Scheme") was adopted pursuant to a resolution passed on March 5, 2015 for the primary purpose of providing incentives to directors, eligible employees and individual consultants who render services to the Group.

The Company's Post -IPO Scheme was adopted by the resolutions in writing of all the shareholders passed on August 26, 2018 for the primary purpose of providing incentives to directors of the Company eligible employees and individual consultants who render services to the Group.

Under the Pre-IPO Scheme and Post-IPO Scheme, the directors of the Company may grant options to eligible employees, including the directors of the Company, to subscribe for shares of the Company. The fair value of the services provided by employees are measured at the fair value of options at the grant date. Additionally, the Company may, from time to time, grant share options to individual consultants for settlement in respect of research and development advisory services provided to the Group. The fair value of the services from individual consultants is determined by the fair value of the services received on the services receipt date.

The directors of the Company approved up to 117,000,000 shares of the Company in which options may be granted under the Pre-IPO Scheme and approved up to 105,191,330 shares of the Company in which options may be granted under the Post-IPO Scheme.

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

(1) Details of specific categories of options under the Pre-IPO Scheme are as follows:

Categories	Date of grant	Number of options	Exercise price per share
Directors:			
Dr. Li CHEN	December 4, 2014 ~ August 26, 2018	11,421,725	US$0.07 ~ 0.49
Mr. George Chien Cheng LIN	April 3, 2018	25,592,405	US$0.47
Employees	March 25, 2013 ~ August 26, 2018	43,761,066	US$0.07 ~ 0.47
Individual consultants	September 12, 2013 ~ May 11, 2018	6,177,000	US$0.07 ~ 0.47

(2) Details of specific categories of options under the Post – IPO Scheme are as follows:

Category	Date of grant	Number of options	Exercise price per share
Directors:			
Dr. Li CHEN	March 8, 2019 ~ March 22, 2021	15,079,000	HK$4.984~8.866
Mr. George Chien Cheng LIN	March 8, 2019	300,000	HK$8.866
Employees	September 28, 2018 ~ September 23, 2021	21,811,301	HK$3.00~ 8.866
Individual consultants	March 8, 2019	200,000	HK$8.866

(3) Options granted under the Pre-IPO Scheme and the Post-IPO Scheme shall have a contractual term of 10 years and generally vest over a four year period, with 25% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 75% vesting subsequently in 36 equal monthly instalments except for the options granted to non-employees individual consultants on September 12, 2013 and March 15, 2016. The options granted to individual consultants on September 12, 2013 have a contractual term of 10 years and generally vest over a three year period, with 33% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 67% vesting in 24 substantially equal monthly instalments. The options granted to individual consultants on March 15, 2016 have a contractual term of 10 years and vest in 12 equal monthly instalments. The vesting commencement date of 10,519,300 shares of options granted to Dr. Li CHEN on June 25, 2019 was subject to the positive HMM0301 Phase III results as determined in the directors of the Company's sole discretion (without the participation of the chief executive officer). On November 11, 2019, the directors of the Company approved the 10,519,300 shares of options granted to Dr. Li CHEN should commence the vesting period on November 11, 2019 based on the positive HMM0301 Phase III topline trial results being announced by the Company.

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Scheme and Post-IPO Scheme during the year ended December 31, 2021:

Category	Option type	Outstanding as of January 1, 2021	Granted During year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding as of December 31, 2021
Category 1: Director							
Dr. Li CHEN	**Pre-IPO Scheme**						
	2014	700,000	–	(500,000)	–	–	200,000
	2016	1,500,000	–	–	–	–	1,500,000
	2017	1,500,000	–	–	–	–	1,500,000
	2018	8,221,725	–	–	–	–	8,221,725
	Post-IPO Scheme						
	2019	12,079,000	–	–	–	–	12,079,000
	2021	–	3,000,000	–	–	–	3,000,000
		24,000,725	3,000,000	(500,000)	–	–	26,500,725
Mr. George Chien Cheng LIN	**Pre-IPO Scheme**						
	2018	25,592,405	–	–	–	–	25,592,405
	Post-IPO Scheme						
	2019	300,000	–	–	–	–	300,000
		25,892,405	–	–	–	–	25,892,405
	Total directors	49,893,130	3,000,000	(500,000)	–	–	52,393,130

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding as of January 1, 2021	Granted during year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding as of December 31, 2021
Category 2: Employees	**Pre-IPO Scheme**						
	2013	3,908,000	–	(179,000)	–	–	3,729,000
	2014	4,480,000	–	(599,500)	–	–	3,880,500
	2016	7,625,000	–	(300,000)	–	–	7,325,000
	2017	6,613,766	–	(924,266)	–	–	5,689,500
	2018	29,044,777	–	(4,964,351)	(942,589)	(771)	23,137,066
	Post-IPO Scheme						
	2018	575,000	–	–	–	–	575,000
	2019	7,706,351	–	–	(731,582)	(976,126)	5,998,643
	2020	9,905,843	–	(243,461)	(1,510,393)	(1,336)	8,150,653
	2021	–	7,900,000	–	(812,995)	–	7,087,005
	Total employees	69,858,737	7,900,000	(7,210,578)	(3,997,559)	(978,233)	65,572,367
Category 3: Individual consultants	**Pre-IPO Scheme**						
	2013	1,550,000	–	–	–	–	1,550,000
	2014	150,000	–	–	–	–	150,000
	2016	3,352,000	–	–	–	–	3,352,000
	2018	1,125,000	–	–	–	–	1,125,000
	Post-IPO Scheme						
	2019	200,000	–	–	–	–	200,000
	Total individual consultants	6,377,000	–	–	–	–	6,377,000
	Total all categories	126,128,867	10,900,000	(7,710,578)	(3,997,559)	(978,233)	124,342,497
	Exercisable at the beginning and end of the year	84,050,356					99,421,338
	Weighted average exercise price (HK$)	3.65	5.00	1.79	4.57	8.85	3.81

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Scheme and Post-IPO Scheme during the year ended December 31, 2020:

Category	Option type	Outstanding as of January 1, 2020	Granted During year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding as of December 31, 2020
Category 1: Director							
Dr. Li CHEN	**Pre-IPO Scheme**						
	2014	1,700,000	–	(1,000,000)	–	–	700,000
	2016	1,500,000	–	–	–	–	1,500,000
	2017	1,500,000	–	–	–	–	1,500,000
	2018	8,221,725	–	–	–	–	8,221,725
	Post-IPO Scheme						
	2019	12,079,000	–	–	–	–	12,079,000
		25,000,725	–	(1,000,000)	–	–	24,000,725
Mr. George Chien Cheng LIN	**Pre-IPO Scheme**						
	2018	25,592,405	–	–	–	–	25,592,405
	Post-IPO Scheme						
	2019	300,000	–	–	–	–	300,000
		25,892,405	–	–	–	–	25,892,405
	Total directors	50,893,130	–	(1,000,000)	–	–	49,893,130

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding as of January 1, 2020	Granted during year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding as of December 31, 2020
Category 2: Employees	**Pre-IPO Scheme**						
	2013	3,908,000	–	–	–	–	3,908,000
	2014	4,480,000	–	–	–	–	4,480,000
	2016	8,009,354	–	(150,000)	(234,354)	–	7,625,000
	2017	7,687,500	–	(1,031,500)	(42,157)	(77)	6,613,766
	2018	30,328,035	–	(797,264)	(484,990)	(1,004)	29,044,777
	Post-IPO Scheme						
	2018	575,000		–	–	–	575,000
	2019	8,310,300		–	(496,030)	(107,919)	7,706,351
	2020	–	10,255,000	–	(349,157)	–	9,905,843
	Total employees	63,298,189	10,255,000	(1,978,764)	(1,606,688)	(109,000)	69,858,737
Category 3: Individual consultants	**Pre-IPO Scheme**						
	2013	1,799,500	–	(249,500)	–	–	1,550,000
	2014	150,000	–	–	–	–	150,000
	2016	3,941,500	–	(589,500)	–	–	3,352,000
	2018	1,125,000	–	–	–	–	1,125,000
	Post-IPO Scheme						
	2019	200,000	–	–	–	–	200,000
	Total individual consultants	7,216,000	–	(839,000)	–	–	6,377,000
	Total all categories	121,407,319	10,255,000	(3,817,764)	(1,606,688)	(109,000)	126,128,867
	Exercisable at the beginning and end of the year	60,864,074					84,050,356
	Weighted average exercise price (HK$)	3.58	3.90	1.89	4.55	8.80	3.65

26. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

These fair values were calculated using the Black-Scholes pricing model. These fair values of the options at grant dates and corresponding inputs into the model were as follows:

	May 15&17, 2019	June 25, 2019	September 19, 2019	January 3, 2020	March 24, 2020	March 25, 2020	April 12, 2020	April 13, 2020	April 14, 2020
Grant date option fair value per share	HK$3.96	HK$3.96~ HK$4.16	HK$4.30	HK$2.86	HK$1.86	HK$1.92	HK$1.88	HK$1.89	HK$1.83
Grant date share price	HKD$7.01	HK$6.96	HK$6.85	HK$4.98	HK$3.15	HK$3.23	HK$2.99	HK$2.99	HK$3.05
Exercise price	HK$8.866	HK$8.866	HK$6.80	HK$6.64	HK$3.62	HK$3.62	HK$3.02	HK$3.00	HK$3.62
Expected volatility	68.40%	70.10%~ 71.90%	70.00%	69.47%	69.60%	69.67%	71.65%	71.81%	71.95%
Expected life	5.9 years	5.8 years~ 6.2 years	6.1 years	6.01 years	6.07 years	6.01 years	6.07 years	6.06 years	6.04 years
Risk-free rate	1.56%	1.43%	1.33%	1.67%	0.84%	0.75%	0.69%	0.69%	0.66%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%

	April 14, 2020	May 15, 2020	June 15, 2020	September 1, 2020	January 7, 2021	March 22, 2021	May 06, 2021	August 30, 2021	September 23, 2021
Grant date option fair value per share	HK$1.83	HK$2.97	HK$3.47	HK$3.77	HK$3.29	HK$3.08	HK$3.02	HK$3.34	HK$3.70
Grant date share price	HK$3.05	HK$4.45	HKD$4.97	HK$6.05	HK$5.22	HK$4.83	HK$4.75	HK$4.56	HK$5.05
Exercise price	HK$3.62	HK$3.62	HK$3.62	HK$7.18	HK$5.58	HK$4.98	HK$4.89	HK$4.56	HK$5.05
Expected volatility	71.95%	72.67%	74.76%	75.80%	73.86%	73.28%	73.12%	88.79%	88.48%
Expected life	6.04 years	6 years	5.96 years	6.06 years	6.08 years	6.08 years	6.08 years	6.08 years	6.08 years
Risk-free rate	0.66%	0.36%	0.39%	0.39%	0.47%	0.94%	0.84%	0.82%	0.88%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%

Expected volatility was determined by using the historical volatility of the comparable companies and the effect of difference in leverage between the Company and the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of behavioral considerations. The Group recognized the total expense of RMB31,634,000 and RMB56,444,000 for the years ended December 31, 2021 and 2020, respectively, in relation to share options granted by the Company.

26. Share-based payment transactions (Continued)

Restricted stock units of the Company

Restricted stock units

In November 2017, Mr. George Chien Cheng LIN entered into an employee agreement including equity incentives of options and restricted stock units. Pursuant to the agreement, an aggregate of 7,422,975 shares of the Company have been granted to Mr. George Chien Cheng LIN under the Pre-IPO Share Incentive Scheme. Such shares were vested after a qualified IPO is achieved in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting date. The grant date fair value of the restricted stock units of the Company was US$0.24 per share which was determined by the fair value of ordinary shares on the grant date.

The number of unvested restricted stock units was 1,391,781 and 3,247,533 as of December 31, 2021 and 2020, respectively, and was disclosed in treasury shares held in trust.

The Group recognized RMB1,061,000 and RMB2,498,000 of share-based payment expense in relation to the grants of the above restricted stock units for the year ended December 31, 2021 and 2020, respectively.

27. Related party transactions

Compensation of key management personnel

The remuneration of key management personnel of the Group, who are the directors of the Company during the reporting period, were as follows:

	Year ended December 31,	
	2021	**2020**
	RMB'000	**RMB'000**
Short term benefits	17,058	14,588
Post-employment benefits	154	84
Share-based payment	15,710	26,391
	32,922	41,063

28. Capital commitments

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of construction contracted for but not provided in the consolidated financial statements	4,381	–
	4,381	–

29. Capital Risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to investors through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of net debts and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

30. Financial instruments

(a) Categories of financial instruments

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Financial assets		
Amortized cost (including cash and cash equivalents/pledged bank deposits)	688,746	1,039,154
Financial liabilities		
Amortized cost	27,856	30,000

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include other receivables, bank balances and cash, pledged bank deposits, trade and other payables. Details of these financial assets and liabilities are disclosed in respective notes.

The risks associated with these financial assets and liabilities include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risks or the manner in which it manages and measures the risks.

(i) Currency risk

Certain bank balances and cash, trade and other payables are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

30. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are mainly as follows:

	As of December 31,	
	2021	**2020**
	RMB'000	**RMB'000**
Assets		
US$	363,036	445,071
TWD	3	3
HK$	41,132	44,209
Liabilities		
US$	(339)	(493)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US$ and HK$, the foreign currency with which the Group may have a material exposure. No sensitivity analysis has been disclosed for the TWD denominated assets as the impact on profit or loss is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative number below indicates an increase in loss where RMB strengthens 5% against US$ and HK$. For a 5% weakening of RMB against US$ and HK$, there would be an equal and opposite impact on loss for the year.

	As of December 31,	
	2021	**2020**
	RMB'000	**RMB'000**
Impact on profit or loss		
US$	(18,134)	(22,228)
HK$	(2,057)	(2,210)

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the year.

30. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate short-term bank deposits and pledged bank deposits. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Credit risk

The Group has concentration of credit risk on pledged bank deposits and bank balances which are deposited with several banks. However, the credit risk on pledged bank deposits and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for pledged bank deposits/bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on pledged bank deposits and bank balances is considered to be insignificant and therefore no loss allowance was recognised.

For other receivables, the management makes periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2021 and 2020, the Group assessed the ECL for other receivables are insignificant and thus no loss allowance is recognised.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

30. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As of December 31, 2021							
Trade and other payables	N/A	27,856	–	–	–	27,856	27,856
Lease liabilities	5.25%	16,669	21,524	41,198	–	79,391	71,528
As of December 31, 2020							
Trade and other payables	N/A	30,000	–	–	–	30,000	30,000
Lease liabilities	5.25%	15,350	15,021	61,966	–	92,337	80,715

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

There are no financial assets and liabilities measured at fair value as of December 31, 2021 and 2020.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amounts of the Group's financial assets and financial liabilities measured at amortized cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

31. Retirement benefit plans

The employees of the Group's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organized by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The Group contributions to the retirement benefit scheme are expensed as incurred and not reduced by contribution forfeited by those employees who leave the plan. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are RMB11,162,000 for the year ended December 31, 2021 (2020: RMB4,071,000).

32. Particulars of subsidiaries of the company

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of company	Place of incorporation/ establishment/ operation and nature of the legal entity	Issued and fully paid share capital/ Registered capital	Attributable equity interest held by the Company 2021	2020	Principal activities
Directly held					
Hua Medicine Technology (Hong Kong) Limited ("Hua HK") 華領醫藥技術(香港)有限公司 (formerly known as Hua Medicine Limited)	Hong Kong Limited liability company	Registered capital of US$209,546,243.54	100%	100%	Investment holding company
Hua Medicine USA Inc	The United States Limited Liability company	Registered capital of US$2,760,000.00	100%	100%	Development of innovative medicines
Indirectly held					
Hua Shanghai (Note (b)) 華領醫藥技術(上海)有限公司	The PRC Limited liability company	Registered capital of US$114,718,839.00 and paid-in capital of US$101,429,343.49	100%	100%	Development of innovative medicines
Indirectly held					
Hua Biotechnology (Note (b)) 上海華領生物科技有限公司(Note (c))	The PRC Limited liability company	Registered capital of RMB60,000,000	100%	N/A	Commercialization of innovative medicines
Indirectly held					
Hua Pharmaceuticals (Note (b)) 華領藥業有限公司(Note (a))	The PRC Limited liability company	Registered capital of RMB50,000,000 and paid-in capital of 0	N/A	100%	Commercialization of innovative medicines

Notes:

(a) Hua Pharmaceuticals has been deregistered in May, 2021.

(b) The English names are for identification purpose only.

(c) Hua Biotechnology has been found in February, 2021.

None of the subsidiaries had issued any debt securities at the end of the year.

33. Reconciliation of assets and liabilities arising from financing activities

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Assets and liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities RMB'000 (Note 22)	Other receivables for considerations of options exercised RMB'000 (Note 19)	Total RMB'000
As of January 1, 2020	89,978	(1,398)	88,580
Financing cash flows	(14,893)	7,631	(7,262)
Non-cash changes			
New leases entered	3,823	–	3,823
Interest expenses	4,396	–	4,396
Rent Concession	(2,589)	–	(2,589)
Exercise of options by employees	–	(6,520)	(6,520)
As of December 31, 2020	80,715	(287)	80,428
Financing cash flows	(16,483)	10,349	(6,134)
Non-cash changes			
New leases entered	4,053	–	4,053
Interest expenses	3,950	–	3,950
Termination of lease arrangement	(707)	–	(707)
Exercise of options by employees	–	(10,421)	(10,421)
As of December 31, 2021	71,528	(359)	71,169

34. Information of financial position of the company and movements in the company's reserves

The statement of financial position of the Company is as follows:

	As of December 31, 2021 RMB'000	As of December 31, 2020 RMB'000
Non-current Assets		
Investments in subsidiaries	1,843,466	1,373,324
Current Assets		
Other receivables	2,089	2,722
Amounts due from a subsidiary	3,665	1,326
Bank balances and cash	275,265	668,333
	281,019	672,381
Current Liabilities		
Trade and other payables	2,604	5,817
Amounts due to a subsidiary	91,019	6,218
	93,623	12,035
Net Current Assets	187,396	660,346
Total Assets Less Current Liabilities	2,030,862	2,033,670
Net Assets	2,030,862	2,033,670
Capital and Reserves		
Share capital	7,211	7,209
Reserves	2,023,651	2,026,461
Total Equity	2,030,862	2,033,670

34. Information of financial position of the company and movements in the company's reserves (Continued)

The movements in the Company's reserves of the Company for the year ended December 31, 2021 and 2020 are as follows:

	Share premium RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As of January 1, 2020	5,893,318	147,738	(3,989,165)	2,051,891
Loss and total comprehensive expense for the year	–	–	(90,892)	(90,892)
Options exercised to purchase ordinary shares under the trust	6,520	–	–	6,520
Recognition of equity-settled payment for subsidiary	–	58,942	–	58,942
As of December 31, 2020	5,899,838	206,680	(4,080,057)	2,026,461
Loss and total comprehensive expense for the year	–	–	(45,924)	(45,924)
Options exercised to purchase ordinary shares under the trust	10,419	–	–	10,419
Recognition of equity-settled payment for subsidiary	–	32,695	–	32,695
As of December 31, 2021	5,910,257	239,375	(4,125,981)	2,023,651

FIVE YEAR FINANCIAL SUMMARY

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE EXPENSE

	For the year ended 31 December				
	2017	2018	2019	2020	**2021**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Other income	11,706	10,355	29,574	15,859	**11,871**
Other gains and losses	(6,557)	63,778	16,275	(41,827)	**(10,373)**
Administrative expenses	(31,086)	(100,398)	(146,584)	(140,084)	**(134,835)**
Other expenses	–	(38,918)	(1,724)	(1,724)	**(1,612)**
Finance cost	(2,958)	(3,534)	(907)	(4,396)	**(3,950)**
Research and Development expenses	(125,337)	(269,065)	(321,904)	(220,962)	**(186,835)**
Loss on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL")	(126,456)	(3,266,216)	–	–	**–**
Other comprehensive expense					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	–	–	–	(453)	**454**
Loss and total comprehensive expense for the year	(280,688)	(3,603,998)	(425,270)	(393,587)	**(325,280)**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	For the year ended 31 December				
	2017	2018	2019	2020	**2021**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Current assets	232,288	1,474,510	1,120,452	1,045,277	**704,600**
Prepayments and other receivables	23,364	24,337	14,852	13,187	**24,666**
Prepayments to related parties	20,090	6,863	–	–	**–**
Other financial assets	16,101	–	–	–	**–**
Pledged bank deposits	–	–	–	–	**4,696**
Bank balances and cash	172,733	1,443,310	1,105,600	1,032,090	**675,238**
Current liabilities	42,997	77,633	108,786	106,547	**106,884**
Trade and other payables	12,377	76,033	88,317	80,794	**79,738**
Amounts due to related companies	23,320	–	–	–	**–**
Lease liabilities	–	–	12,019	11,503	**13,296**
Deferred income	7,300	1,600	8,450	14,250	**13,850**
Net current assets	189,291	1,396,877	1,011,666	938,730	**597,716**
Non-current assets	13,496	15,739	134,161	153,244	**198,953**
Non-current liabilities	1,145,317	9,128	85,207	359,479	**346,338**
Net assets	(942,530)	1,403,488	1,060,620	732,495	**450,331**
Total equity	(942,530)	1,403,488	1,060,620	732,495	**450,331**

DEFINITIONS

In this annual report, the following expressions have the meanings set out below unless the context requires otherwise.

"API"	active pharmaceutical ingredient
"Articles of Association"	the memorandum and articles of association of the Company
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors of the Company
"Company"	Hua Medicine (華領醫藥), an exempt limited liability company incorporated under the laws of the Cayman Islands on November 10, 2009 and whose Shares are listed on the Stock Exchange
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"CMC"	chemistry, manufacturing and control
"CMO".	a contract manufacturing organization, which provides support to the pharmaceutical industry in the form of manufacturing services outsourced on a contract basis
"CRO"	a contract research organization, which provides support to the pharmaceutical industry in the form of research services outsourced on a contract basis
"Director(s)"	the director(s) of the Company
"DPP-4"	an enzyme that rapidly degrades GLP-1, thereby reducing the normal effect of GLP-1 in enhancing the secretion of insulin. DPP-4 inhibitors have been successfully developed as orally administered anti-diabetic therapies and are approved in both China and the United States, among other countries
"first-in-class"	drugs that use a new and unique mechanism of action for treating a medical condition
"GLP-1"	glucagon-like peptide-1, a peptide hormone with the ability to decrease blood glucose levels in a glucose-dependent manner by enhancing the secretion of insulin. GLP-1 agonists have been successfully developed as injectable anti-diabetic therapies and are approved in both China and the United States, among other countries
"glucose homeostasis"	an intricate physiological process within the human body that regulates blood glucose levels within an acceptable range or threshold. This process is dependent on the balance of insulin (which normally facilitates uptake of glucose after meal), glucagon (which facilitates the production of glucose by the body when glucose levels are low), and other hormones
"GMP"	good manufacturing practice
"Group"	the Company and its subsidiaries

"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HK IPO"	the global offering of the Shares, comprising the Hong Kong public offering of 10,476,000 Shares and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company
"Hua HK"	Hua Medicine Technology (Hong Kong) Limited (華領醫藥技術(香港)有限公司), formerly known as Hua Medicine Limited (華醫藥有限公司), a limited liability company incorporated under the laws of Hong Kong on August 12, 2010, being a wholly-owned subsidiary of the Company
"Hua Shanghai"	Hua Medicine (Shanghai) Ltd. (華領醫藥技術(上海)有限公司), a limited liability company incorporated under the laws of the PRC on June 22, 2011, being an indirect wholly-owned subsidiary of the Company
"Hua USA"	Hua Medicine USA Inc. (華領醫藥美國有限公司), a limited liability company incorporated under the laws of USA on April 9, 2020, being an indirect wholly-owned subsidiary of the Company
"insulin"	a hormone produced by the β-cells in the pancreas that is critical in promoting the absorption of glucose from the blood into the liver, skeletal muscle and adipose cells (or fat), among other cells
"Listing"	listing of our Shares on the Stock Exchange
"Listing Date"	September 14, 2018, being the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MAH"	Market Authorized Holder, a certification granted by the CFDA, which allows certain license holders to use a qualified CMO to manufacture pharmaceutical products
"mGLUR5"	metaotropic glutamate receptor 5
"monotherapy"	the use of one type of treatment alone to treat a certain disease or condition
"Model Code"	the Model Code for the Securities Transactions by Directors of Listed Issue's contained in Appendix 10 to the Listing Rules
"NDA"	new drug application
"NMPA"	National Medical Products Administration (國家藥品監督管理局), and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
"Nomination Committee"	the nomination committee of the Board

"PRC"	the People's Republic of China, excluding, for the purposes of this report, the Hong Kong Special Administrative Region of the People's Republic of China, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Pre-IPO Share Incentive Scheme"	the share incentive scheme approved and adopted by the Company on March 25, 2013 as amended from time to time, for the benefit of any director, employee, adviser or consultant of the Company or any of its subsidiaries
"Post-IPO Share Option Scheme"	the post-IPO share option scheme approved and adopted by our Company on August 26, 2018 for the benefit of any director, employee, adviser or consultant of the Company or any of our subsidiaries; a summary of the principal terms is set forth in "Appendix IV – Statutory and General Information – D. Share Incentive Schemes – 2. Post-IPO Share Option Scheme" of the Prospectus
"Prospectus"	the prospectus issued by the Company on August 31, 2018 in connection with the Hong Kong public offering of the Shares
"R&D"	research and development
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the year ended December 31, 2021
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGLT-2"	Sodium-glucose co-transporter-2
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	ordinary share(s) with nominal value of US$0.001 each in the share capital of the Company
"SMO"	Site management organizations
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	the strategy committee of the Board
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America
"U.S."	the United States of America