歌礼
ascletis

Ascletis Pharma Inc.
歌禮製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

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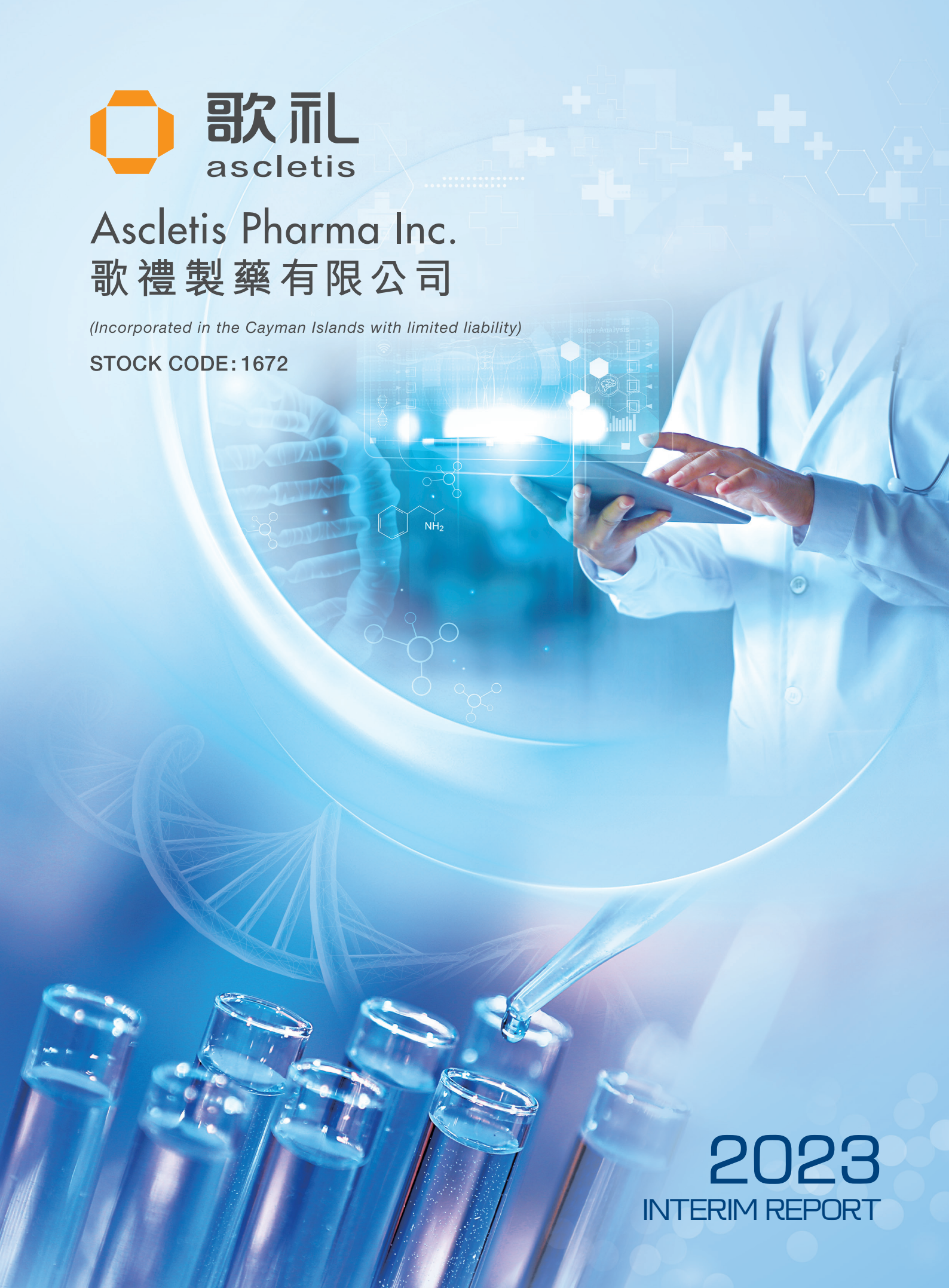
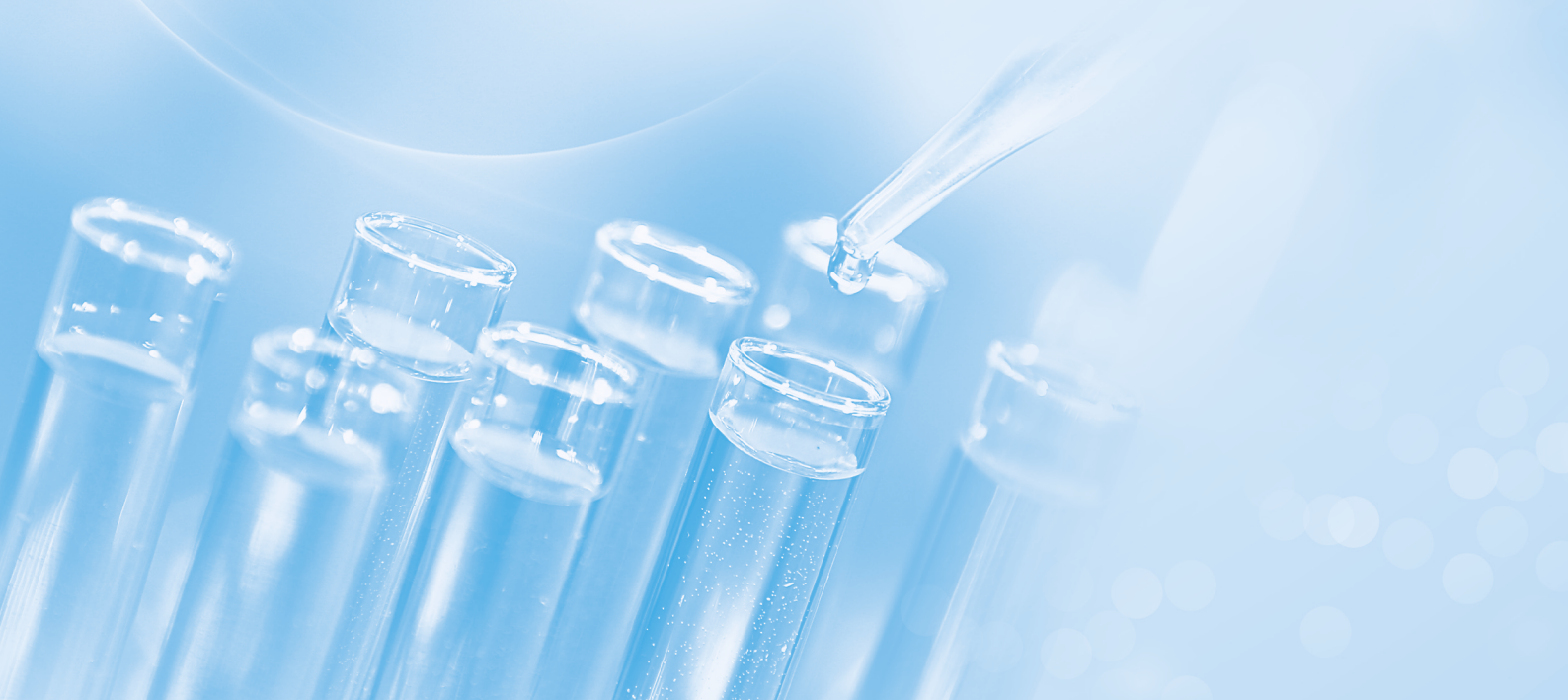


2023
INTERIM REPORT

Contents



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Jinzi Jason WU
(Chairman and Chief Executive Officer)
Mrs. Judy Hejingdao WU
(Senior Vice President)

Independent Non-executive Directors

Dr. Yizhen WEI
Mr. Jiong GU
Ms. Lin HUA

AUDIT COMMITTEE

Mr. Jiong GU *(Chairman)*
Dr. Yizhen WEI
Ms. Lin HUA

REMUNERATION COMMITTEE

Ms. Lin HUA *(Chairman)*
Dr. Yizhen WEI
Mrs. Judy Hejingdao WU

NOMINATION COMMITTEE

Dr. Jinzi Jason WU *(Chairman)*
Ms. Lin HUA
Dr. Yizhen WEI

AUTHORISED REPRESENTATIVES

Dr. Jinzi Jason WU
Mrs. Judy Hejingdao WU

COMPANY SECRETARY

Mr. Ming Fai CHUNG

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HONG KONG SHARE REGISTRAR

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CORPORATE INFORMATION

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AUDITOR

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8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

STOCK CODE

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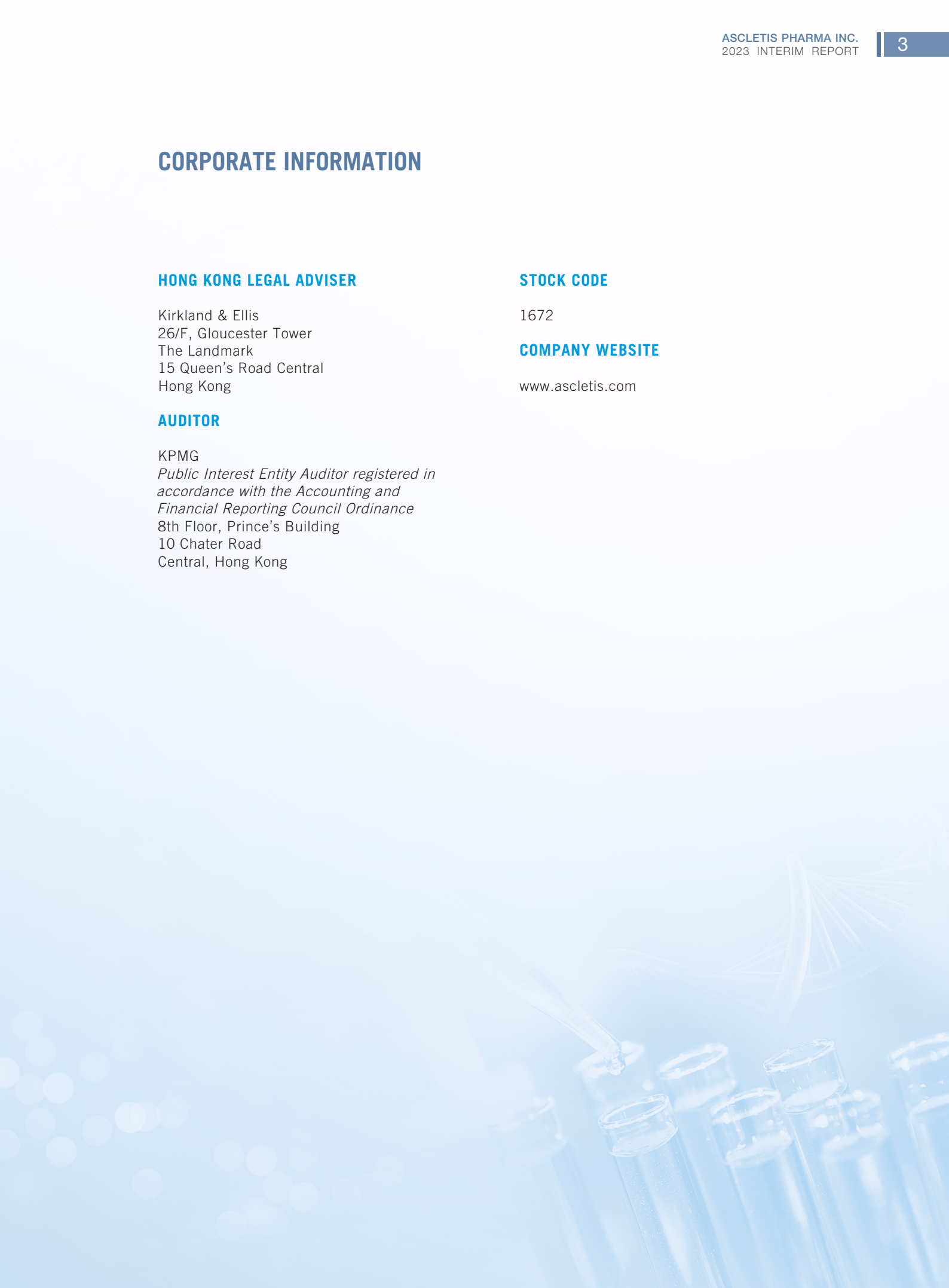
COMPANY WEBSITE

www.ascletis.com



FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended June 30,		
	2023	2022	Changes
	RMB'000	*RMB'000*	*%*
Revenue			
Ritonavir revenue	**44,167**	691	6,291.8
HCV product revenue	**2,339**	4,529	(48.4)
Promotion service revenue	**–**	32,998	(100.0)
Total	**46,506**	38,218	21.7
Gross profit	**38,620**	24,367	58.5
Other income and gains	**75,041**	47,817	56.9
Loss before tax	**(16,559)**	(87,998)	81.2
Loss for the period	**(16,559)**	(87,998)	81.2
Loss attributable to the equity owners of the Company	**(16,559)**	(87,998)	81.2
Net loss margin	**(35.6%)**	(230.3%)	–
	RMB	*RMB*	
Loss per share			
– Basic	**(1.52) cents**	(8.10) cents	
– Diluted	**(1.52) cents**	(8.10) cents	

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE PROFILE

Our Vision

Ascletis' vision is to become the most innovative world-class biomedical company addressing global unmet medical needs in the areas of viral diseases, NASH/PBC and oncology.

Overview

The revenue of the Group increased by 21.7% from approximately RMB38.2 million for the six months ended June 30, 2022 to approximately RMB46.5 million for the six months ended June 30, 2023. Other income and gains increased by 56.9% from approximately RMB47.8 million for the six months ended June 30, 2022 to approximately RMB75.0 million for the six months ended June 30, 2023. The total income of the Group increased by 41.3% from approximately RMB86.0 million for the six months ended June 30, 2022 to approximately RMB121.5 million for the six months ended June 30, 2023.

As at June 30, 2023, the Group had cash and bank balances of approximately RMB2,512.9 million (June 30, 2022: approximately RMB2,483.7 million), which is expected to be sufficient to support its research and development activities and operations until 2027.

The research and development expenses of the Group decreased by 22.4 % from approximately RMB118.8 million for the six months ended June 30, 2022 to approximately RMB92.3 million for the six months ended June 30, 2023, primarily due to (i) improved spending efficiency on both clinical and preclinical projects; and (ii) the decrease in depreciation and amortization costs of intangible assets resulted from an impairment of approximately RMB54.7 million on intangible assets at December 31, 2022.

The Group has established a broad pipeline of assets with a focus on viral disease, NASH/PBC and oncology. During the Reporting Period and up to the date of this report, the Group successfully obtained five IND approvals from both the U.S. FDA and China NMPA, completed one Phase I and two Phase II trials and supported the clinical development of five ongoing drug candidates at Phase II or Phase III. This R&D efficiency once again demonstrated operational excellence of the Group when compared with its peers in biotech industry in China.

The gross profit of the Group increased by 58.5% from approximately RMB24.4 million for the six months ended June 30, 2022 to approximately RMB38.6 million for the six months ended June 30, 2023, primarily due to (i) the increase of RMB8.3 million in revenue, which represented a 21.7% growth compared to the same period in 2022; and (ii) improved manufacturing cost control.

The loss for the period of the Group decreased significantly by 81.2% from approximately RMB88.0 million for the six months ended June 30, 2022 to approximately RMB16.6 million for the six months ended June 30, 2023, mainly due to (i) the increase in revenue generated from sales of ritonavir product; (ii) the decrease in costs of sales for all marketed products; and (iii) the decrease in total expenses through effective cost control measures.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE PROFILE (Continued)

Overview (Continued)

During the Reporting Period and up to the date of this report, the Group has made the following progress:

(i) announced positive Phase II clinical results of FASN inhibitor ASC40 for acne, which achieved primary and key secondary endpoints, demonstrating significant efficacy and good safety. Phase III clinical trial of FASN inhibitor ASC40 for acne is expected to be initiated in the second half of 2023;

(ii) presented the final data of 1.0 mg/kg cohort of ASC22 (Envafolimab) in the Phase IIb clinical trial for functional cure of CHB at APASL Annual Meeting 2023. In this cohort, 24-week treatment of ASC22 resulted in remarkable HBsAg decline. In the patient sub-group with baseline HBsAg ≤ 100 IU/mL, 42.9% (3/7) of patients achieved sustained HBsAg loss (HBsAg below the LLOQ, LLOQ = 0.05 IU/mL) during the 24-week treatment and HBsAg loss maintained at the completion of 24-week or 41-week follow-up, indicating that ASC22 achieved CHB functional cure in these patients;

(iii) completed the enrollment of 50 CHB patients with HBsAg ≤ 100 IU/mL in the expansion cohort of Phase IIb clinical trial of ASC22 (Envafolimab) for functional cure of CHB. Topline interim results of this expansion cohort are expected to be available in the third quarter of 2023;

(iv) witnessed the presentation of the interim results from the U.S. Phase IIb clinical trial of FASN inhibitor ASC40 (denifanstat) in biopsy-confirmed NASH patients with 52 weeks of treatment by our strategic partner Sagimet Biosciences at the EASL Congress in June 2023. ASC40 showed statistically significant improvements across key disease markers after 26 weeks of treatment. Sagimet Biosciences announced that topline biopsy results after 52 weeks of treatment are expected to be published in the first quarter of 2024;

(v) enrolled 108 patients with rGBM in the Phase III clinical trial of FASN inhibitor ASC40. The enrollment of approximately 120 rGBM patients, which is needed for the planned interim analysis, is expected to be completed in the third quarter of 2023;

(vi) completed the enrollment of 98 patients in the Phase II clinical trial of ASC42, an FXR agonist, for PBC; topline data of the Phase II clinical trial are expected to be released by the end of 2023;

(vii) witnessed the successful upsized initial public offering of Sagimet Biosciences, our strategic partner that we invested in during its series E financing in 2019 as a lead investor and series F financing in 2021, on the Nasdaq Stock Market (Nasdaq: SGMT) raising approximately US$96.4 million;

(viii) was included in Hang Seng Hong Kong-Listed Biotech Index; and

(ix) completed existing pipeline review and assessment and made a strategic optimization of resources on 12 clinical stage assets, most of which have potential to be first-in-class or best-in-class on a global basis. Please refer to the pipeline charts in this report for details.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE PROFILE (Continued)

Overview (Continued)

Viral Disease Pipeline

Product (Modality)	Target	Indication	Commercial Rights	Pre-IND	IND	Phase I	Phase II	Phase III
ASC22 (Subcutaneous mAb)	PD-L1	CHB functional cure	Global[1]					
ASC22 (Subcutaneous mAb)	PD-L1	HIV functional cure	Global[1]					
ASC10 (Oral small molecule)	RdRp	COVID-19	Global					
ASC10 (Oral small molecule)	Viral polymerase	Respiratory syncytial virus	Global					
ASC11 (Oral small molecule)	3CLpro	COVID-19	Global					

Note:

1. ASC22 is licensed from Suzhou Alphamab Co., Ltd. for worldwide exclusive rights.

Abbreviations:

PD-L1: Programmed death ligand 1; CHB: Chronic hepatitis B; HIV: Human immunodeficiency virus; RdRp: RNA-dependent RNA polymerase; 3CLPro: 3-chymotrypsin like protease.

NASH/PBC Pipeline[1]

Product (Modality)	Target	Indication	Commercial Rights	Pre-IND	IND	Phase I	Phase II	Phase III
ASC40 (Oral small molecule)	FASN	NASH	Greater China[2]		*U.S. FDA Fast Track*			
ASC41 (Oral small molecule)	THRβ	NASH	Global					
ASC43F FDC (Oral small molecule)	THRβ + FXR	NASH	Global					
ASC42 (Oral small molecule)	FXR	PBC	Global					

Notes:

1. NASH/PBC pipeline is owned by Gannex.

2. ASC40 is licensed from Sagimet Biosciences for exclusive rights in the Greater China.

Abbreviations:

FASN: Fatty acid synthase; THRβ: Thyroid hormone receptor beta; FXR: Farnesoid X receptor; NASH: Non-alcoholic steatohepatitis; PBC: Primary biliary cholangitis.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE PROFILE (Continued)

Overview (Continued)

Oncology Pipeline (Lipid Metabolism and Oral Checkpoint Inhibitors)

Product (Modality)	Target	Indication	Commercial Rights	Pre-IND	IND	Phase I	POC	Pivotal
ASC40 (Oral small molecule) +Bevacizumab	FASN + VEGF	Recurrent glioblastoma	Greater China[1]					
ASC61 (Oral small molecule)	PD-L1	Advanced solid tumors	Global					

Note:

1. ASC40 is licensed from Sagimet Biosciences for exclusive rights in the Greater China.

Abbreviations:

FASN: Fatty acid synthase; VEGF: Vascular endothelial growth factor; PD-L1: Programmed death ligand 1.

Exploratory Indication Pipeline

Product (Modality)	Target	Indication	Commercial Rights	Pre-IND	IND	Phase I	Phase II	Phase III
ASC40 (Oral small molecule)	FASN	ACNE	Greater China[1]					

Note:

1. ASC40 is licensed from Sagimet Biosciences for exclusive rights in the Greater China.

Abbreviation:

FASN: Fatty acid synthase.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period and up to the date of this report, the Group has made the following progresses with respect to its business.

Viral Diseases

ASC22 for CHB Functional Cure

During the Reporting Period, the Group has completed the enrollment of 50 CHB patients with HBsAg ≤ 100 IU/mL in the expansion cohort of subcutaneously administered PD-L1 antibody ASC22 (Envafolimab) for functional cure of CHB. Topline interim results of this expansion cohort are expected to be available in the third quarter of 2023.

In February 2023, the Group orally presented the final data of 1.0 mg/kg ASC22 (administered subcutaneously once every two weeks) versus placebo cohort (ClinicalTrials.gov Identifier: NCT04465890) at APASL Annual Meeting 2023. In this cohort, 48 patients completed 24-week treatment of 1.0 mg/kg ASC22 and 24-week or longer follow-up; 15 patients completed 24-week treatment of placebo and 24-week follow-up. 24-week treatment of ASC22 resulted in remarkable HBsAg decline. In the patient subgroup with baseline HBsAg ≤100 IU/mL, 42.9% (3/7) of patients achieved HBsAg loss (HBsAg below the LLOQ, LLOQ = 0.05 IU/mL) during the treatment and HBsAg loss maintained at the completion of 24-week or 41-week follow-up, indicating that ASC22 achieved CHB functional cure in these patients. The CHB functional cure is in general defined as achieving HBsAg loss with a finite treatment duration (typically 24 to 48 weeks) and HBsAg loss still maintaining after at least 24-week follow-up.

CHB remains to be a significantly unmet medical need globally, with approximately 86 million people in China and 1.59 million people in the U.S. infected with HBV[1]. NAs inhibit only reverse transcription of HBV RNA into HBV DNA and do not inhibit the transcription of HBV cccDNA into HBV RNA, and thus have no inhibitory effect on HBsAg. ASC22 is the most advanced clinical stage immunotherapy in the world for CHB functional cure, i.e. HBsAg loss, through blocking PD-1/PD-L1 pathway.

Anticipated 2023 Milestone: Topline interim results from Phase IIb expansion cohort of subcutaneously administered PD-L1 antibody ASC22 (Envafolimab) for functional cure of CHB in patients with baseline HBsAg ≤ 100 IU/mL are expected to be available in the third quarter of 2023.

Note:

1 Lim J K, Nguyen M H, Kim W R, et al. Prevalence of Chronic Hepatitis B Virus Infection in the United States J. The American journal of gastroenterology 2020, 115(9): 1429-38.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Viral Diseases (Continued)

ASC10 for RSV

The Group has obtained U.S. FDA approval of conducting Phase IIa clinical trial for ASC10 to treat RSV infection and has submitted an application of Phase IIa clinical trial for RSV indication in China.

RSV is the most common cause of bronchiolitis (inflammation of the small airways in the lung) and pneumonia (infection of the lungs) in children younger than 1 year of age in the U.S.[1] and causes approximately 58,000 hospitalizations among children under five annually[2]. RSV infection is estimated to cause about 14,000 annual deaths in U.S. adults over age 65. Globally, RSV affects an estimated 64 million people and causes 160,000 deaths each year[2]. RSV infection treatment remains huge unmet medical needs and there is no effective drug for treatment so far. According to the report from Astute Analytica, the global market of RSV therapies is expected to grow at a compound annual growth rate of 14.9% from 2022 to 2027 and reach revenue of US$4.2 billion by 2027[3].

Preclinical research[4] showed that ASC10-A (NHC) is a potent inhibitor with EC_{50} of 0.51 to 0.6 uM against two RSV clinical isolates using *in vitro* infection assay in HEp-2 cells. Furthermore, preclinical research[4] also demonstrated that ASC10-A (NHC) is efficacious in a mouse RSV infection model.

Anticipated 2023 Milestone: Seek external partnering opportunities to advance Phase IIa clinical trial of ASC10 for RSV in the U.S. or China.

Notes:

1 https://www.cdc.gov/rsv/index.html

2 https://www.niaid.nih.gov/diseases-conditions/respiratory-syncytial-virus-rsv

3 https://www.astuteanalytica.com/industry-report/respiratory-syncytial-virus-market

4 Jeong-Joong Yoon, Mart Toots, Sujin Lee, et al. Orally Efficacious Broad-Spectrum Ribonucleoside Analog Inhibitor of Influenza and Respiratory Syncytial Viruses. Antimicrob Agents Chemother. 2018;62(8):e00766-18.

ASC22 for HIV Functional Cure

On July 25, 2023, Shanghai Public Health Clinical Center presented clinical results of ASC22 (Envafolimab) in combination with Chidamide for functional cure of HIV infection at the 12th International AIDS Society (IAS) Conference on HIV Science in Brisbane, Australia, and virtually. This Phase II study enrolled 15 subjects in total living with HIV who had achieved virological suppression to receive a subcutaneous injection of ASC22 (1 mg/kg) once every four weeks in combination with 10 mg Chidamide administered orally twice a week during the 12-week treatment while maintaining antiretroviral therapy. This Phase II study showed that combination treatment with ASC22 and Chidamide is well tolerated and effectively activated latent HIV reservoirs. There was a significant increase in CA HIV RNA at week 8 and week 12 compared to the baseline, with an average rise of 4.27-fold and 3.41-fold, respectively (P=0.001, P=0.006) in the subjects. The CA HIV RNA to total DNA ratios also showed the same trend (P=0.038, P=0.017, respectively). Further investigations are warranted.

Another Phase II study is a randomized, single-blind, placebo-controlled, multi-center clinical trial in China to evaluate the safety and efficacy of ASC22 for treatment of HIV-1 infection at the dosages of 1 mg/kg or 2.5 mg/kg or placebo in combination with ART once every four weeks (Q4W) during 12-week treatment and 12-week follow-up. This Phase II study is currently ongoing.

It was estimated that there were approximately 39 million people living with HIV globally with approximately 0.63 million deaths caused by AIDS-related illnesses and approximately 1.3 million new HIV infections in 2022[1].

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Viral Diseases (Continued)

Anticipated 2023 Milestone: Continue the Phase II study of ASC22 in combination with ART.

Note:

1 UNAIDS. Global HIV & AIDS statistics — FACT SHEET. 2022.

https://www.unaids.org/en/resources/fact-sheet

ASC10 and ASC11 for COVID-19

Considering the recent development of COVID-19 infections and market demand in China, the Phase III study of ASC10 for COVID-19 and the Phase II/III study of ASC11 for COVID-19 have not yet been initiated by the Group. Assuming COVID-19 epidemic continues in China and market demand for additional oral treatments for COVID-19 remains strong, the Phase III study of ASC10 for COVID-19 and the Phase II/III study of ASC11 for COVID-19 are expected to be initiated by the end of 2023 or early 2024.

NASH/PBC

ASC40 for NASH

During the Reporting Period, the Group's strategic partner Sagimet Biosciences has presented positive interim Phase IIb clinical trial data of ASC40 (denifanstat), a first-in-class FASN inhibitor, in moderate-to-severe biopsy-confirmed NASH patients at the EASL Congress in June 2023. ASC40 (denifanstat) showed statistically significant improvements across key disease markers after 26 weeks of treatment.

The Phase IIb study is a randomized, double-blind and placebo-controlled trial of 168 NASH patients with moderate-to-severe fibrosis (stage F2 or F3), as confirmed by liver biopsy. In the planned interim analysis, 52 patients were evaluated after 26 weeks of treatment with either 50 mg ASC40 (denifanstat) or placebo. There were no treatment-related serious adverse events, with the majority of adverse events being mild to moderate in nature (grade 1 and 2).

ASC40 (denifanstat) was well-tolerated and met primary endpoint in planned interim readout with 67% of treated patients achieving ≥ 30% reductions in liver fat at week 26 compared to 18% placebo ($p < 0.001$) as assessed by MRI-PDFF. ASC40 (denifanstat) statistically significantly decreased LDL cholesterol in treated patients and improvements in the circulating blood lipid profile were observed.

Anticipated Milestone: Phase IIb topline clinical results from 168 biospy-confirmed NASH patients after 52 weeks of treatment are expected to be available in the first quarter of 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

NASH/PBC (Continued)

ASC41 for NASH

During the Reporting Period, the Group initiated Phase II clinical trial of ASC41 for biopsy-confirmed NASH patients. The Phase II clinical trial will enroll approximately 180 liver biopsy-confirmed NASH patients to be randomized into two treatment arms and one placebo control arm at the ratio of 1:1:1 with oral administration of ASC41 (2 mg or 4 mg) or placebo once daily for 52 weeks. The primary endpoint of the Phase II clinical trial is NAFLD activity score improvement ≥ 2 points (improvement in inflammation or ballooning) and no worsening of fibrosis.

ASC41 Phase II clinical trial is currently the most advanced 52-week Phase II clinical trial initiated by a biotech company in China with enrollment of liver biopsy-confirmed NASH patients. ASC41 ranked first in China and third in the world in terms of clinical progress as a THRβ agonist drug candidate for NASH.

ASC41 is a small molecule liver-targeted prodrug which will be converted into an active metabolite ASC41-A, a selective THRβ agonist. In September 2021, the Group's wholly-owned subsidiary, Gannex, announced positive topline results from the U.S. Phase I clinical trial of drug-drug interactions in healthy subjects and pharmacokinetics in patients with NAFLD for ASC41. ASC41 is mainly metabolized by CYP3A4 to form an active metabolite ASC41-A, a selective THRβ agonist. Subsequently, the Group dosed the first patient in the 52-week Phase II clinical trial of THRβ agonist ASC41 for treatment of liver biopsy-confirmed NASH patients.

Anticipated 2023 Milestone: Topline interim results of liver fat reduction, LDL-C reduction, liver enzymes and biomarkers of approximately 42-45 NASH patients after 12-week treatment are expected to be available in the fourth quarter of 2023.

ASC42 for PBC

During the Reporting Period, the Group has completed the enrollment of 98 patients with PBC in the Phase II clinical trial of ASC42, a novel FXR agonist.

The 12-week Phase II study (ClinicalTrials.gov Identifier: NCT05190523) consists of three ASC42 active treatment arms (5 mg, 10 mg and 15 mg) and one placebo control arm and enrolled a total of 98 patients who have an inadequate response to or are unable to tolerate UDCA.

ASC42 is an in-house developed, novel non-steroidal, selective, potent FXR agonist with best-in-class potential and global intellectual property rights.

UDCA is the only drug which is approved in China for treatment of PBC and approximately 40% of PBC patients have an inadequate response to or are unable to tolerate UDCA[1]. OCA, which is not approved in China, is the only medicine approved in the U.S. for treatment of PBC patients who have an inadequate response to or are unable to tolerate UDCA. However, there are significantly increased pruritus rates and LDL-C levels in patients with OCA treatment[2]. Absence of pruritus and mean LDL-C values within the normal range at the therapeutic dose make ASC42 a potential best-in-class PBC drug candidate.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

NASH/PBC (Continued)

ASC42 for PBC *(Continued)*

An epidemiology study in China in 2010 showed that there were approximately 656,000 PBC patients in China including 440,000 in females over age 40[3]. An epidemiology study in the U.S. indicated that there were approximately 120,000 PBC patients in the U.S. in 2014[4].

Anticipated 2023 Milestone: Phase II topline data from 98 patients with PBC after 12 weeks of treatment are expected to be available by the end of 2023.

Notes:

1 Lindor K D, Bowlus C L, Boyer J, et al. Primary Biliary Cholangitis: 2018 Practice Guidance from the American Association for the Study of Liver Diseases J. Hepatology 2019, 69(1): 394-419. DOI: 10.1002/hep.30145.

2 Nevens, Frederik et al. "A Placebo-Controlled Trial of Obeticholic Acid in Primary Biliary Cholangitis." The New England journal of medicine vol. 375,7 (2016): 631-43. doi:10.1056/NEJMoa1509840.

3 Chinese Rheumatology Association (中華醫學會風濕病學分會), "Recommendations for diagnosis and treatment of primary biliary cholangitis in China (2021)" (原發性膽汁性膽管炎診療規範(2021)) J. Zhong Hua Nei Ke Za Zhi. (中華內科雜誌), 2021, 60(8): 709-15. DOI: 10.3760/cma.j.cn112138-20210520-00360.

4 Lu M, Zhou Y, Haller I V, et al. Increasing Prevalence of Primary Biliary Cholangitis and Reduced Mortality With Treatment J. Clin Gastroenterol Hepatol 2018, 16(8): 1342-50 e1. DOI: 10.1016/j.cgh.2017.12.033.

ASC43F for NASH

ASC43F is a once-a-day, single tablet, FDC of 5 mg ASC41, a THRβ agonist, and 15 mg ASC42, a FXR agonist. The U.S. Phase I trial (ClinicalTrials.gov Identifier: NCT05118516) was an open-label, single-dose study evaluating the safety, tolerability and pharmacokinetics of ASC43F in healthy subjects. The results showed that ASC43F was safe and well tolerated, without clinically significant adverse effects. The pharmacokinetic parameters of ASC41 and ASC42 from ASC43F are similar to those of ASC41 and ASC42 as monotherapy.

Previous Phase I studies in the U.S. and China have shown ASC41 at 5 mg to be safe and well tolerated in both healthy volunteers, overweight and obese subjects and patients with NAFLD. In these studies, ASC41 significantly reduced LDL-C, triglyceride, and total cholesterol in overweight and obese subjects with elevated LDL-C, a population that is characteristics of NASH.

Previous Phase I clinical data indicated that ASC42 was safe and well tolerated, with no pruritus observed and with LDC-C values remaining within normal range during 14-day treatment with once-daily therapeutic dose of 15 mg. FXR target engagement biomarkers FGF19 increased 1,780% and C4 decreased 91% on Day 14 of treatment with 15 mg, once-daily dose.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

NASH/PBC (Continued)

ASC43F for NASH *(Continued)*

Anticipated 2023 Milestone: Continue to engage key opinion leaders to evaluate fixed-dose combination strategy targeting THRβ and FXR.

Oncology Pipeline (Lipid Metabolism and Oral Checkpoint Inhibitors)

ASC40 for rGBM

The Group announced the dosing of the first patient in the Phase III clinical trial of ASC40 combined with Bevacizumab for treatment of rGBM in 2022. ASC40 is an oral small molecule, selective inhibitor of FASN, a key enzyme which regulates DNL. ASC40 inhibits energy supply and disturbs membrane phospholipid composition of tumor cells by blocking DNL.

The Phase III registration study (ClinicalTrials.gov Identifier: NCT05118776) is a randomized, double-blind, placebo-controlled and multi-center clinical trial in China to evaluate progression-free survival, overall survival and safety of patients with rGBM. Approximately 180 patients are expected to be 1:1 randomized to cohort 1 (oral ASC40 tablet once daily + Bevacizumab) and cohort 2 (matching placebo tablet once daily + Bevacizumab). Among the 180 planned patients, the Group has enrolled 108 patients with rGBM as of the date of this report in the Phase III clinical trial of FASN inhibitor ASC40.

The Phase II study, completed in the U.S., in patients with rGBM has shown that the objective response rate for ASC40 plus Bevacizumab treatment was 56% including a complete response of 17% and a partial response of 39%.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Oncology Pipeline (Lipid Metabolism and Oral Checkpoint Inhibitors) (Continued)

ASC40 for rGBM (Continued)

Based on published data, in China, GBM represents 57% of gliomas and has an incidence rate of approximately 2.85 to 4.56 per 100,000 population per year, suggesting approximately 40,000 to 64,000 new cases of GBM per year. More than 90% GBM patients will relapse after surgery, radiation and chemotherapies. In the U.S., GBM represents 56.6% of gliomas and has an incidence rate of approximately 3.21 per 100,000 population per year.

Anticipated 2023 Milestone: Enrollment of approximately 120 rGBM patients, which is needed for the planned interim analysis, is expected to be completed in the third quarter of 2023.

ASC61 for solid tumors

During the Reporting Period, the Group has made steady progress of Phase I clinical trial of ASC61 for advanced solid tumors.

The ASC61 Phase I clinical trial in the U.S. is a dose escalation study in patients with advanced solid tumors. The objectives of such study are to find a recommended dose for Phase II clinical trial and obtain preliminary efficacy in patients with advanced solid tumors. This Phase I study is currently ongoing.

ASC61 is an oral potent and highly selective PD-L1 small molecule inhibitor and blocks PD-1/PD-L1 interaction through inducing PD-L1 dimerization and internalization. Preclinical studies showed that ASC61 demonstrated significant antitumor efficacies and were well-tolerated in both syngeneic and humanized tumor mouse models. ASC61 was found to have favorably comparable antitumor activities as the U.S. FDA approved PD-L1 therapeutic monoclonal antibody, Atezolizumab.

Compared with PD-1/PD-L1 antibody injections, the oral PD-L1 inhibitor ASC61 has the following benefits: (1) higher patient compliance with easy and safe administration with no need of hospital visits for injections; (2) ease of all oral combination therapies with other oral anti-tumor drugs; (3) increased ease to manage immune-related adverse effects with dose adjustment; (4) relatively lower cost; and (5) higher permeability to distribute into targeted tissues.

Anticipated 2023 Milestone: Continue to conduct the Phase I clinical trial of ASC61 in the U.S.

Exploratory Indications Pipeline

ASC40 for moderate to severe acne

During the Reporting Period, the Group has announced positive Phase II clinical results of FASN inhibitor ASC40 for acne, which achieved primary and key secondary endpoints, demonstrating significant efficacy and good safety. Phase III clinical trial of FASN inhibitor ASC40 for acne is expected to be initiated in the second half of 2023.

The Phase II clinical trial was a randomized, double-blind, placebo-controlled and multi-center clinical trial in China to evaluate the safety and efficacy of ASC40 for the treatment of patients with moderate to severe acne. The 180 patients enrolled were randomized into three active treatment arms and one placebo control arm at the ratio of 1:1:1:1 to receive ASC40 (25 mg, 50 mg or 75 mg) or matching placebo orally, once daily for 12 weeks, among which 179 patients received at least one dose of ASC40 or placebo.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Exploratory Indications Pipeline (Continued)

ASC40 for moderate to severe acne *(Continued)*

ASC40 is an oral, selective inhibitor of FASN, a key enzyme which regulates DNL. Human sebum production requires DNL, which is increased in acne and suppressed by the FASN inhibitor ASC40. Previous Phase I study showed that ASC40 can significantly reduce palmitic acid fatty acid methyl ester in sebum.

Acne is the eighth most prevalent disease in the world and affects more than 640 million people globally[1]. The onset of acne often coincides with pubertal hormonal changes, and the condition affects approximately 85% of adolescents and young adults aged 12 to 25 years[2]. However, acne can also persist into or develop during adulthood.

Current first-line treatments for acne include topical creams such as topical retinoids and androgen receptor inhibitor, oral isotretinoin, and antibiotics. A report published by Allied Market Research indicated that the global acne medication market size was US$11.86 billion in 2019 and is projected to reach US$13.35 billion by 2027.

Anticipated 2023 Milestone: Initiate Phase III clinical trial of ASC40 for acne in the second half of 2023.

Notes:

1 Tan J K, Bhate K. A global perspective on the epidemiology of acne J. Br J Dermatol 2015, 172 Suppl 1(3-12. DOI: 10.1111/bjd.13462.

2 Krowchuk D P. Managing acne in adolescents J. Pediatric clinics of North America 2000, 47(4): 841-57. DOI: 10.1016/s0031-3955(05)70243-1.

Termination of R&D for ASC09

The Company decided to terminate the R&D of ASC09, a HIV protease inhibitor drug candidate that the Company used to develop to treat HIV type-1 infections, due to the loss of competitive edges of ASC09 compared with alternative products such as integrase inhibitor. Ascletis BioScience has served a written notice to Janssen Sciences Ireland UC (formerly known as Janssen R&D Ireland), the licensor of ASC09, to terminate the development and license agreement with respect to the license of ASC09 in its entirety pursuant to the terms of such agreement in July 2023.

Cautionary statement required by Rule 18A.05 of the Listing Rules: We cannot guarantee that we will be able to ultimately develop, market and/or commercialize the drug candidates in our pipeline successfully.

MANAGEMENT DISCUSSION AND ANALYSIS

THE GROUP'S FACILITIES

The Group has manufacturing facilities located in Shaoxing, Zhejiang Province with a total gross floor area of approximately 17,000 square meters. Our manufacturing facilities are equipped with state-of-the-art production equipment with cutting-edge technology capabilities such as hot-melt extrusion and high-speed press to ensure the high quality of our products.

As at June 30, 2023, the Group had 11 wholly-owned subsidiaries. The Group's business was mainly conducted through three operating subsidiaries in China, namely Ascletis BioScience, Ascletis Pharmaceuticals and Gannex.

OTHER UPDATES

The Group is seeking opportunities to license out its multiple clinical assets.

FUTURE AND OUTLOOK

The Group has established a comprehensive pipeline with 12 key clinical stage assets focused on viral diseases, NASH/PBC and oncology. The following are strategies and outlook for the second half-year of 2023:

1. Accelerate Phase II clinical trial of ASC41 (THRβ) for NASH;

2. Complete the enrollment of 120 patients of ASC40 (FASN) for rGBM;

3. Complete Phase II clinical trial of ASC42 for PBC;

4. Accelerate in-house discovery for global first or best in class drug candidates to enhance the Group's competitiveness on a global basis; and

5. Explore license-out opportunities of various clinical stage assets.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The total revenue of the Group increased by 21.7% from approximately RMB38.2 million for the six months ended June 30, 2022 to approximately RMB46.5 million for the six months ended June 30, 2023 due to the increase of approximately RMB43.5 million from sales of ritonavir product, which was partially offset by a decrease of approximately RMB33.0 million in promotion service revenue.

Cost of Sales

The cost of sales of the Group decreased by 43.1% from approximately RMB13.9 million for the six months ended June 30, 2022 to approximately RMB7.9 million for the six months ended June 30, 2023, primarily attributed to the decrease in costs of rendering promotion services as the Group terminated promotion service for Pegasys® in China with Shanghai Roche Pharmaceuticals Ltd. (上海羅氏製藥有限公司, "**Shanghai Roche**"), which was partially offset by an increase of cost in relation to ritonavir product.

The cost of sales of the Group consisted of direct labor costs, cost of raw materials, overheads, royalty fees to Roche and Presidio and the impairment of inventories.

Direct labor costs primarily consisted of salaries, bonus and social security costs for our employees.

Costs of raw materials represented the costs in relation to the purchase of raw materials for our drug candidates.

Overheads primarily consisted of depreciation charges of the facility and equipment and other manufacturing expenses.

The Company has agreed to pay Roche and Presidio tiered royalties in the mid-single digits based on net sales of GANOVO® (Danoprevir) and ASCLEVIR® (Ravidasvir) in any and all regimens in Greater China.

Gross Profit

The gross profit of the Group increased by 58.5% from approximately RMB24.4 million for the six months ended June 30, 2022 to approximately RMB38.6 million for the six months ended June 30, 2023. The increase in gross profit was primarily due to (i) the increase of RMB8.3 million in revenue, which represented a 21.7% growth compared to the same period in 2022; and (ii) improved manufacturing cost control.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other Income and Gains

The other income and gains of the Group increased by 56.9% from approximately RMB47.8 million for the six months ended June 30, 2022 to approximately RMB75.0 million for the six months ended June 30, 2023, primarily because bank interest income increased by 266.4% from approximately RMB13.4 million for the six months ended June 30, 2022 to approximately RMB49.0 million for the six months ended June 30, 2023.

Government grants mainly represented the subsidies we received from the local governments for the purpose of compensating our expenses arising from research activities and clinical trials, awarding our new drug development and capital expenditure incurred on certain projects.

The following table sets forth the components of our other income and gains for the periods indicated:

	Unaudited For the six months ended June 30,			
	2023		2022	
	RMB'000	***%***	*RMB'000*	*%*
Bank interest income	**48,964**	**65.2**	13,362	27.9
Foreign exchange gain, net	**17,853**	**23.8**	32,196	67.3
Government grants	**4,359**	**5.8**	1,065	2.3
Investment income from financial assets at fair value through profit or loss	**3,865**	**5.2**	1,194	2.5
Total	**75,041**	**100.0**	47,817	100.0

Selling and Distribution Expenses

The selling and distribution expenses of the Group decreased by 92.9% from approximately RMB10.5 million for the six months ended June 30, 2022 to approximately RMB0.7 million for the six months ended June 30, 2023, due to the termination of promotion service for Pegasys® in Mainland China with Shanghai Roche and that we have ceased to proactively promote HCV products since 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Administrative Expenses

The administrative expenses of the Group increased by 44.4% from approximately RMB18.0 million for the six months ended June 30, 2022 to approximately RMB25.9 million for the six months ended June 30, 2023, primarily due to the increase in staff related costs and consulting fees.

Our administrative expenses primarily consisted of (i) staff salary and welfare costs for non-R&D personnel; (ii) utilities, rent and general office expenses; and (iii) agency and consulting fees.

The following table sets forth the components of our administrative expenses for the periods indicated:

	Unaudited For the six months ended June 30,			
	2023		2022	
	RMB'000	***%***	*RMB'000*	*%*
Staff salary and welfare	**11,721**	**45.2**	8,333	46.4
Utilities, rent and general office expenses	**6,777**	**26.1**	5,147	28.7
Agency and consulting fees	**7,334**	**28.3**	4,464	24.8
Others	**116**	**0.4**	25	0.1
Total	**25,948**	**100.0**	17,969	100.0

Research and Development Expenses

The Group's research and development expenses primarily consisted of preclinical and clinical trial expenses, staff costs and depreciation and amortization costs.

The research and development expenses of the Group decreased by 22.4% from approximately RMB118.8 million for the six months ended June 30, 2022 to approximately RMB92.3 million for the six months ended June 30, 2023, primarily due to (i) improved spending efficiency on both clinical and preclinical projects; and (ii) the decrease in depreciation and amortization costs of intangible assets resulted from an impairment of RMB54.7 million on intangible assets at December 31, 2022.

The following table sets forth the components of our research and development costs for the periods indicated:

	Unaudited For the six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
Staff costs	**41,693**	33,899
Preclinical and clinical trial expenses	**37,490**	65,089
Others	**7,680**	6,545
Depreciation and amortization	**5,395**	13,281
Total	**92,258**	118,814

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Research and Development Expenses (Continued)

The following table sets forth the components of our research and development costs by product pipeline for the periods indicated:

	Unaudited For the six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
Viral diseases	**26,180**	72,655
NASH/PBC	**22,865**	18,481
Oncology	**20,207**	14,303
Pre-clinical programs	**12,006**	6,815
Exploratory indications	**11,000**	6,560
Total	**92,258**	118,814

Finance Costs

The Group recorded approximately RMB0.07 million finance costs for the six months ended June 30, 2023 due to the interest on the lease liabilities (June 30, 2022: RMB0.06 million).

Other Expenses

The other expenses of the Group decreased by 75.0% from approximately RMB2.0 million for the six months ended June 30, 2022 to approximately RMB0.5 million for the six months ended June 30, 2023, mainly due to the decrease in donations.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other Expenses (Continued)

The following table sets forth the components of other expenses for the periods indicated:

	Unaudited For the six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
Donations	**492**	2,008
Others	**10**	4
Total	**502**	2,012

Income Tax

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

The Group calculated the income tax expense by using the tax rate that would be applicable to the expected total annual earnings.

The Group did not incur any income tax expense as the Group did not generate taxable income for the six months ended June 30, 2022 and 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Inventories

The inventories of the Group consisted of raw materials used in the commercial manufacturing and research and development, work in progress and finished goods. Our inventories increased by 33.6% from approximately RMB20.5 million as at December 31, 2022 to approximately RMB27.4 million as at June 30, 2023. The following table sets forth the inventory balances as of the dates indicated:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Raw materials	**9,127**	9,116
Work in progress	**15,855**	9,766
Finished goods	**2,434**	1,637
Total	**27,416**	20,519

Trade Receivables

The Group had approximately RMB23.9 million trade receivables as at December 31, 2022 and approximately RMB5.6 million as at June 30, 2023.

The following table sets forth the trade receivables balances as of the dates indicated:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Trade receivables	**5,635**	23,878
Less: Impairment of trade receivables	**–**	5
Total	**5,635**	23,873

The Group's trading terms with its customers are mainly on credit. The credit period is generally from 30 days to 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. Trade receivables are non-interest-bearing.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Trade Receivables (Continued)

An aging analysis of the trade receivables as at the dates indicated, based on the invoice date and net of loss allowance, is as follows:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Within 3 months	**–**	13,537
3 to 6 months	**5,635**	10,336
Total	**5,635**	23,873

Prepayments, Other Receivables and Other Assets

The following table sets forth the components of prepayment, other receivables and other assets as at the dates indicated:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Value-added tax recoverable	**7,659**	5,399
Prepayments	**5,164**	8,125
Deposits and other receivables	**3,097**	2,648
Prepaid expenses	**631**	2,128
Total	**16,551**	18,300

Our value-added tax recoverable represented the value-added taxes paid with respect to our procurement that can be credited against future value-added tax payables. Our value-added tax recoverable increased by 41.9% from approximately RMB5.4 million as at December 31, 2022 to approximately RMB7.7 million as at June 30, 2023, primarily due to the decrease in tax rebate.

Our prepayments mainly represented the purchase of services which related to our expenses on clinical trials. Our prepayments decreased by 36.4% from approximately RMB8.1 million as at December 31, 2022 to approximately RMB5.2 million as at June 30, 2023. Prepayments to suppliers as at June 30, 2023 are due within one year. As of the date of this report, none of the above assets is past due or impaired.

Deposits and other receivables and prepaid expenses are miscellaneous expenses including other administrative related expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Fair Value of Financial Instruments

The financial assets at fair value through profit or loss of the Group decreased from approximately RMB11.2 million as at December 31, 2022 to approximately RMB3.5 million as at June 30, 2023, which was primarily because the Group reduced the purchase of financial products whilst increased time deposits with original maturity over three months to increase the earnings.

The following table sets forth the component of the Group's financial assets at fair value through profit or loss as at the dates indicated:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Financial assets at fair value through profit or loss	**3,500**	11,200
Total	**3,500**	11,200

Cash and Bank Balances

The following table sets forth the components of the Group's time deposits with original maturity over three months and cash and cash equivalents as at the dates indicated:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Time deposit with original maturity over three months	**2,043,212**	2,067,066
Cash and cash equivalents	**469,694**	403,768
Total	**2,512,906**	2,470,834

Time deposits with original maturity over three months are made for varying periods depending on our immediate cash requirements, and earn interest at the respective time deposit rates. Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates. The cash and cash equivalents and time deposits are deposited with creditworthy banks with no recent history of default.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Trade Payables

Trade payables of the Group primarily consisted of payments to raw materials suppliers. The following table sets forth the component of trade payables as at the dates indicated:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Trade payables	**6,953**	3,135
Total	**6,953**	3,135

The following table sets forth an ageing analysis of the trade payables as at the dates indicated, which is based on invoice date:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Within 3 months	**6,953**	2,365
3 to 12 months	**–**	745
1 to 2 years	**–**	25
Total	**6,953**	3,135

Other Payables and Accruals

The following table sets forth the components of other payables and accruals outstanding as at the dates indicated:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Other payables	**40,429**	42,688
Payroll payable	**13,705**	24,126
Accrued expenses	**8,559**	30,472
Contract liabilities	**4,651**	377
Taxes other than income tax	**3,423**	1,553
Refund liabilities	**2,088**	1,834
Total	**72,855**	101,050

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other Payables and Accruals (Continued)

Our other payables remained stable at approximately RMB42.7 million and approximately RMB40.4 million as at December 31, 2022 and June 30, 2023, respectively. Other payables were non-interest-bearing and are due within one year.

The payroll payable represented the accrued salary and bonus for the first half year of 2023, which are due within one year.

The accrued expenses as at June 30, 2023 mainly represented the accrued research and development expenses actually incurred but not yet invoiced and decreased by 71.9% from approximately RMB30.5 million as at December 31, 2022 to approximately RMB8.6 million as at June 30, 2023, which was attributed to improved spending efficiency on both clinical and preclinical projects. The accrued expenses were non-interest-bearing and are due within one year.

Deferred Income

The deferred income of the Group represented government grants which have been awarded, but we have yet to meet the conditions of the grants as of the relevant dates. The following table sets forth the deferred income as of the dates indicated:

	As at June 30, 2023 (Unaudited) *RMB'000*	As at December 31, 2022 (Audited) *RMB'000*
Government grants		
Current	**1,588**	1,588
Non-current	**6,352**	7,146
Total	**7,940**	8,734

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Liquidity and Capital Resources

The primary uses of cash of the Group are to fund its research and development activities, purchase of equipment and raw materials and other recurring expenses. During the Reporting Period, the Group funded its working capital and other capital expenditure requirements through capital injections from Shareholders at the Listing.

The following table sets forth a summary of the Group's condensed consolidated statement of cash flows for the periods indicated and analysis of balances of cash and cash equivalents for the periods indicated:

	For the six month ended June 30, 2023 (Unaudited) *RMB'000*	For the six month ended June 30, 2022 (Unaudited) *RMB'000*
Net cash used in operating activities	**(67,959)**	(99,707)
Net cash generated from/(used in) investing activities	**141,685**	(571,882)
Net cash used in financing activities	**(11,398)**	(96)
Net increase/(decrease) in cash and cash equivalents	**62,328**	(671,685)
Cash and cash equivalents at the beginning of the period	**403,768**	1,727,411
Effect of foreign exchange rate changes, net	**3,598**	47,294
Cash and cash equivalents at the end of the period	**469,694**	1,103,020

As at June 30, 2023, cash and cash equivalents were mainly denominated in Renminbi and United States dollars.

Operating Activities

Our cash inflows from operating activities mainly consisted of trade receivables from customers, government grants and bank interest income. Our cash outflows for operating activities mainly consisted of selling and distribution expenses, research and development costs, and administrative expenses.

For the six months ended June 30, 2023, we had net cash flows used in operating activities of approximately RMB68.0 million, primarily as a result of operating loss before changes in working capital of approximately RMB65.3 million. The changes in working capital were mainly due to the decrease in other payables and accruals of approximately RMB27.8 million.

Investing Activities

Our cash used in investing activities mainly consisted of our cash in time deposits with original maturity of over three months, purchase of property, plant and equipment, purchase of intangible assets and purchase of financial assets at fair value through profit or loss.

For the six months ended June 30, 2023, our net cash generated from investing activities was approximately RMB141.7 million, primarily because we redeemed time deposits with original maturity of over three months of approximately RMB132.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Financing Activities

Our cash used in financing activities primarily related to repurchase of Shares during the Reporting Period.

For the six months ended June 30, 2023, our net cash flows used in financing activities was approximately RMB11.4 million, primarily because we repurchased Shares during the Reporting Period.

Capital Expenditures

The principal capital expenditures of the Group primarily consisted of purchase of plant and machinery, and the purchase of office equipment and expenditures for construction in progress. The following table sets forth our net capital expenditures as at the dates indicated:

	June 30, 2023 (Unaudited) *RMB'000*	December 31, 2022 (Audited) *RMB'000*
Plant and machinery	**561**	3,985
Office equipment	**15**	2,268
Construction in progress	**115**	14
Total	**691**	6,267

Significant Investments, Material Acquisitions and Disposals

For the six months ended June 30, 2023, we did not have material acquisitions or disposals of subsidiaries, associates and joint ventures.

Indebtedness

Borrowings

As at June 30, 2023, the Group did not have any borrowing.

As at June 30, 2023, the Group did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

Contingent Liabilities, Charges of Assets and Guarantees

On December 29, 2022, Viking, a pharmaceutical company in the U.S., filed certain complaints against the Company, its founder Jinzi Jason WU and certain subsidiaries of the Company in connection with the Group's drug candidates ASC41 and ASC43F. The Company believes that the allegations brought by Viking have no merit and will vigorously defend against the complaints. Accordingly, the Group has not made any provision for the allegations arising from the complaints filed by Viking as at June 30, 2023.

Save as disclosed above, as at June 30, 2023, the Group was not involved in other material legal, arbitration or administrative proceedings that, if adversely determined, and did not have other contingent liabilities, that, we expected would materially adversely affect our business, financial position or results of operations.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Indebtedness (Continued)

Contractual Commitments

We leased certain of our properties and warehouse under operating lease arrangements. Leases for properties and warehouse are negotiated for terms ranging mainly from one to three years.

The Group had approximately RMB0.4 million of capital commitments as at June 30, 2023.

Key Financial Ratios

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

	As at June 30, 2023 (Unaudited)	As at December 31, 2022 (Audited)
Current ratio[(1)]	**30.8**	23.5
Quick ratio[(2)]	**30.5**	23.3
Gearing ratio[(3)]	**3.4%**	4.4%

Notes:

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

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

(3) Gearing ratio represents total liabilities divided by total assets as of the same date and multiplied by 100%.

Our current ratio increased from 23.5 as of December 31, 2022 to 30.8 as at June 30, 2023, and our quick ratio increased from 23.3 as of December 31, 2022 to 30.5 as at June 30, 2023, primarily due to a decrease in current liabilities.

Gearing ratio is calculated using total liabilities divided by total assets and multiplied by 100%. As at June 30, 2023, the gearing ratio of the Group was 3.4% (as at December 31, 2022: 4.4%).

Foreign Exchange Risk

Foreign currency risk refers to the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between Renminbi and other currencies in which our Group conducts business may affect our financial condition and results of operation.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of Renminbi from foreign currencies, including the USD, has been based on rates set by the People's Bank of China. The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. During the Reporting Period, the Group did not enter into any currency hedging transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Employees and Remuneration Policies

As at June 30, 2023, the Group had a total of 243 employees, 238 of which were located in the PRC. Over 75% of our employees obtained a bachelor's degree or higher. The table below sets forth the Group's employees by function as disclosed:

	As at June 30, 2023	
	Numbers of employees	% of total
Management	**5**	2.0
Research and development	**164**	67.5
Manufacturing	**25**	10.3
Operations	**49**	20.2
Total	**243**	100.0

The Group's total staff costs for the six months ended June 30, 2023 was approximately RMB55.3 million, compared to approximately RMB48.8 million for the six months ended June 30, 2022.

The Group recruits employees through recruitment websites, recruiters, internal referral and job fairs. The Group conducts new employee training, as well as professional and compliance training programs for employees.

The Group enters into employment contracts with employees to cover matters such as wages, benefits and grounds for termination. The remuneration package of our employees includes salary and bonus, which are generally determined by the qualifications, industry experience, position and performance. The Group makes contributions to social insurance and housing provident funds for our employees as required by the PRC laws and regulations.

The Group also has adopted a restricted stock unit scheme, a restricted stock unit option incentive scheme before the Listing and a share option scheme under Chapter 17 of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Share Option Scheme

Pursuant to a share option scheme adopted by the Company on June 6, 2019, the Company may grant options to eligible participants to subscribe for Shares subject to the terms and conditions stipulated therein.

Details of the movement of options granted, exercised, cancelled/lapsed and unvested options under the Share Option Scheme during the Reporting Period are as follows:

Categories of participants	Date of grant	Exercise price per share *(HK$)*	Closing price per share immediately before the date of grant *(HK$)*	Exercise period	Balance as at January 1, 2023	Changes during the Reporting Period				Balance as at June 30, 2023	Unvested share options as at January 1, 2023	Unvested share options as at June 30, 2023
						Granted	Exercised	Cancelled	Lapsed			
Eligible employees (five highest paid individuals excluded)	March 31, 2020	2.90	2.90	March 31, 2021 – March 30, 2030 *(Note a)*	1,673,157	–	–	(164,035)	–	1,509,122	1,003,891	603,652
	December 31, 2020	2.87	2.88	December 1, 2021 – November 30, 2030 *(Note b)*	–	–	–	–	–	–	–	–
	June 30, 2021	3.53	3.51	June 30, 2022 – June 29, 2031 *(Note a)*	100,000	–	–	–	–	100,000	80,000	60,000
	September 30, 2021	2.696	2.66	September 30, 2022 – September 29, 2031 *(Note a)*	940,000	–	–	(240,000)	–	700,000	720,000	560,000
	March 31, 2022	5.514	5.58	March 31, 2023 – March 30, 2032 *(Note a)*	100,000	–	–	–	–	100,000	100,000	80,000
	June 30, 2022	3.932	3.94	June 30, 2023 – June 29, 2032 *(Note a)*	200,000	–	–	(100,000)	–	100,000	200,000	80,000
	December 30, 2022	4.74	4.65	December 30, 2023 – December 29, 2032 *(Note a)*	100,000	–	–	(100,000)	–	–	100,000	–
Five Highest Paid Individuals *(Note c)*	March 31, 2020	2.90	2.90	March 31, 2021 – March 30, 2030 *(Note a)*	984,210	–	–	–	–	984,210	590,526	393,684
	April 7, 2021	2.89	2.90	April 7, 2022 – April 6, 2031 *(Note a)*	1,000,000	–	–	–	–	1,000,000	800,000	600,000
	June 30, 2022	3.932	3.94	June 30, 2023 – June 29, 2032 *(Note a)*	2,000,000	–	–	–	–	2,000,000	2,000,000	1,600,000
					7,097,367	–	–	(604,035)	–	6,493,332	5,594,417	3,977,336

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Share Option Scheme (Continued)

Notes:

a) All options granted have a vesting period of five years in equal proportions starting from the 1st anniversary and become fully vested on the 5th anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.

b) Subject to the satisfaction of certain conditions, the first 20% of the total options can be exercised from the date as specified in the relevant grant letter, and each 20% of the total options will become exercisable in each subsequent year.

c) During the Reporting Period, the Company did not grant share options to any Directors.

d) For clarification purpose, column "Cancelled/Lapsed" in the table of details of options granted, exercised, cancelled/lapsed and outstanding under the Share Option Scheme in page 50 of the Company's annual report for the year ended December 31, 2022 (the "**2022 Annual Report**") referred to the options cancelled under the Share Option Scheme during the year ended December 31, 2022.

   The number of options and awards cancelled during the year ended December 31, 2022 was 3,978,596 in aggregate. The details of such cancelled options and awards, including their exercise/purchase price, were set forth in the 2022 Annual Report.

   The number of options and awards which lapsed in accordance with the terms of the scheme during the year ended December 31, 2022 was nil.

The number of options available for grant under the scheme mandate was 98,355,345 as at June 30, 2023 (as at December 31, 2022: 98,355,345).

The number of shares that may be issued in respect of options granted under all schemes of the Company during the Reporting Period is nil.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the Reporting Period.

Fair Value of Share Options Granted

No option was granted under the Share Option Scheme during the Reporting Period and hence the fair value of the options granted during the Reporting Period was not applicable for the six months ended June 30, 2023 (six months ended June 30, 2022: RMB33,000).

OTHER INFORMATION

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions of the CG Code as its own code of corporate governance. The Board is of the view that the Company has complied with all applicable code provisions of the CG Code during the Reporting Period, except for a deviation from the code provision C.2.1 of part 2 of the CG Code, the roles of chairman of the Board and chief executive officer of the Company are not separate and are both performed by Dr. Wu. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of chairman of the Board and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Written Guidelines on no less exacting terms than the Model Code as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines throughout the Reporting Period and up to the date of this report. No incident of non-compliance of the Written Guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

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

During the Reporting Period, the Company repurchased a total of 5,705,000 Shares of the Company on the Stock Exchange at an aggregate consideration of HK$10,913,340.

During the Reporting Period and up to the date of this report, the Company repurchased a total of 14,395,000 Shares of the Company on the Stock Exchange at an aggregate consideration of HK$29,174,680. As at the date of this report, the above mentioned 14,395,000 Shares have been cancelled and the total number of Shares in issue has been reduced accordingly as at the date of this report.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY (Continued)

Particulars of the Shares repurchased during the Reporting Period and up to the date of this report are as follows:

Trading Month	Number and Method of Shares repurchased	Price Per share		Aggregate Consideration Paid
		Highest price paid *(HK$)*	Lowest price paid *(HK$)*	*(HK$)*
June 2023	5,705,000 on the Stock Exchange	2.03	1.77	10,913,340.00
July 2023	8,690,000 on the Stock Exchange	2.28	1.89	18,261,340.00

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

CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' biographical details during the Reporting Period are as follows:

1. Mr. Jiong GU, our independent non-executive Director, has ceased to be the independent non-executive director of Amlogic (Shanghai) Co., Ltd (晶晨半導體(上海)股份有限公司, a company listed on the Shanghai Stock Exchange with stock code: 688099) since July 4, 2023.

2. Ms. Lin HUA, our independent non-executive Director has been appointed as the executive director of Beijing Wenguanglv New Culture Communication Co., Ltd.* (北京文廣旅新文化傳播有限公司) with effect from June 2022.

3. Following the listing of Sagimet Biosciences (Nasdaq: SGMT) on the Nasdaq Stock Market on July 14, 2023, Dr. Wu, our Chairman and executive Director, continued as a director of Sagimet Biosciences.

Save as disclosed above, there is no other update on the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

* *For identification purpose only*

OTHER INFORMATION

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

As at June 30, 2023, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(I) Interests in shares or underlying shares of the Company

Name of Director	Capacity/Nature of Interest	Number of Shares/underlying Shares[1]	Approximate percentage of shareholding interest[2]
Dr. Wu	Interest in controlled corporation[3]	514,393,664 (L)	47.32%
	Interest of spouse[3]	82,827,414 (L)	7.62%
	Interest held jointly with another person[4]	2,311,000 (L)	0.21%
Mrs. Wu	Interest in controlled corporation[3]	82,827,414 (L)	7.62%
	Interest of spouse[3]	514,393,664 (L)	47.32%
	Interest held jointly with another person[4]	2,311,000 (L)	0.21%

Notes:

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

(2) The approximate percentage of shareholding interest in the Company is calculated based on the total number of 1,087,134,000 Shares in issue as at 30 June 2023.

(3) 514,393,664 Shares were held by Dr. Wu through JJW12 Limited, a company incorporated in the BVI and wholly owned by Dr. Wu and 82,827,414 Shares were held by Lakemont Holding LLC.

As at June 30, 2023, Lakemont Holding LLC was controlled by Lakemont Remainder Trust as to 45.95% and Northridge Trust as to 53.52%. Lakemont Remainder Trust and Northridge Trust (the "**Family Trusts**") are discretionary trusts that Mrs. Wu (the spouse of Dr. Wu) was the trustee of the Family Trusts who can exercise the voting rights in the Shares held by the Family Trusts and hence Mrs. Wu was a beneficiary of the Family Trusts. Mrs. Wu was the sole manager of Lakemont Holding LLC and the investment advisor of the Family Trusts.

(4) 2,311,000 Shares were held by Dr. Wu and Mrs. Wu jointly.

Save as disclosed above, so far as it was known to the Directors or chief executive of the Company, as at June 30, 2023, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations as recorded in the register required to be kept, pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

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

As at June 30, 2023, so far as it was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Interests in shares or underlying shares of the Company

Name of Shareholder	Capacity/Nature of Interest	Number of Shares/underlying Shares[1]	Approximate percentage of shareholding interest[2]
JJW11 Limited[3]	Beneficial owner	62,821,469 (L)	5.78%
JJW12 Limited[4]	Beneficial owner	514,393,664 (L)	47.32%
Lakemont Holding LLC[5]	Beneficial owner	82,827,414 (L)	7.62%
C-Bridge Capital GP, Ltd.[6]	Interest of controlled corporation	64,154,727 (L)	5.90%
Fu Wei[6]	Interest of controlled corporation	64,154,727 (L)	5.90%
TF Capital II, Ltd.[6]	Interest of controlled corporation	64,154,727 (L)	5.90%
TF Capital, Ltd.[6]	Interest of controlled corporation	64,154,727 (L)	5.90%
Kang Hua Investment Company Limited[7]	Interest of controlled corporation	105,463,060 (L)	9.70%
Yang Dan[7]	Interest of controlled corporation	105,463,060 (L)	9.70%

OTHER INFORMATION

Notes:

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

(2) The approximate percentage of shareholding interest in the Company is calculated based on the total number of 1,087,134,000 Shares in issue as at 30 June 2023.

(3) The only one issued share of JJW11 Limited was held by Dr. Wu on behalf of the participants under the RSU Scheme adopted by JJW11 Limited. Dr. Wu has irrevocably appointed Ms. Heying YANG (楊荷英) (being a supervisor of Ascletis BioScience and the sole director of JJW11 Limited) as proxy to exercise all voting rights on such shares in her absolute discretion. Dr. Wu does not enjoy and disclaims any beneficial interest in JJW11 Limited.

(4) The 514,393,664 Shares were held by Dr. Wu through JJW12 Limited, a company incorporated in the BVI and wholly owned by Dr. Wu.

(5) As at June 30, 2023, Lakemont Holding LLC was controlled by Lakemont Remainder Trust as to 45.95% and Northridge Trust as to 53.52%. The Family Trusts are discretionary trusts that Mrs. Wu (the spouse of Dr. Wu) was the trustee of the Family Trusts who can exercise the voting rights in the Shares held by the Family Trusts and hence Mrs. Wu was a beneficiary of the Family Trusts. Mrs. Wu was the sole manager of Lakemont Holding LLC and the investment advisor of the Family Trusts.

(6) The 64,154,727 Shares were indirectly held by C-Bridge Capital GP, Ltd. which is owned as to approximately 38.34% and approximately 45% by TF Capital II, Ltd. and TF Capital, Ltd., respectively. Fu Wei indirectly owns approximately 47.83% of TF Capital II, Ltd.

(7) The 105,463,060 Shares were indirectly held by Kang Hua Investment Company Limited which is wholly owned by Yang Dan.

Save as disclosed above, as at June 30, 2023, the Directors and the chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

OTHER INFORMATION

USE OF PROCEEDS FROM LISTING

In connection with the Company's initial public offering, 224,137,000 ordinary Shares of US$0.0001 each were issued at a price of HK$14.00 per share for a total cash consideration, before expenses, of approximately HK$3,137,918,000 (equivalent to RMB2,730,284,000).

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been utilized in that same manner, proportion and the expected timeframe as set out in the announcement on June 14, 2023 in relation to, among others, the change in use of proceeds from the global offering (the "**New Allocation**"). The table below sets out the planned applications of the remaining net proceeds of HK$1,515.3 million after the New Allocation and actual usage up to June 30, 2023:

Use of proceeds	The unutilized net proceeds after the New Allocation *(HK$ million)*	Percentage of total net proceeds after the New Allocation *(%)*	Actual usage from January 1, 2023 to June 30, 2023 *(HK$ million)*	Unutilized net proceeds as at June 30, 2023 *(HK$ million)*	Expected timeframe for use of proceeds
For continued research and development of ASC22, ASC11 and ASC10, and other pipeline products in viral hepatitis, HIV/AIDS and other viruses	681.9	45.0	41.2	640.7	The remaining amount is expected to be utilized in around five years from December 31, 2022.
For continued research and development of pipeline products in oncology	227.3	15.0	28.0	199.3	The amount is expected to be utilized in around four years from December 31, 2022
For continued research and development of pipeline products in NASH/PBC	227.3	15.0	29.4	197.9	The amount is expected to be utilized in around five years from December 31, 2022
For upfront and milestone payments of in-licensing new drug candidates	151.5	10.0	–	151.5	The remaining amount is expected to be utilized in around five years from December 31, 2022
For supporting the research and development of new pipeline drug candidates	151.5	10.0	23.2	128.3	The remaining amount is expected to be utilized in around four years from December 31, 2022
For the working capital and other general corporate purposes	75.8	5.0	27.6	48.2	The remaining amount is expected to be utilized in around four years from December 31, 2022
Total	1,515.3	100.0	149.4	1,365.9	

OTHER INFORMATION

REVIEW OF INTERIM REPORT

The independent auditor of the Company, namely, KPMG, has carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Jiong GU, Dr. Yizhen WEI, and Ms. Lin HUA. The chairman of the Audit Committee is Mr. Jiong GU. The Audit Committee has jointly reviewed with the management the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the unaudited interim results for the six months ended June 30, 2023) of the Group. The Audit Committee considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended June 30, 2023.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

By order of the Board
Ascletis Pharma Inc.
歌禮製藥有限公司
Jinzi Jason WU
Chairman

Hangzhou, the People's Republic of China,
August 21, 2023

Independent Review Report

To the board of directors of Ascletis Pharma Inc.
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 42 to 60 which comprises the consolidated statement of financial position of Ascletis Pharma Inc. (the "Company") and its subsidiaries (the "Group") as of 30 June 2023 and the related consolidated statements of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34*, Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity,* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2023 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
21 August 2023

Interim Consolidated Statement of Profit or Loss

For the six months ended 30 June 2023 – unaudited

	Notes	**2023** ***RMB'000***	2022 *RMB'000*
REVENUE	*4*	**46,506**	38,218
Cost of sales		**(7,886)**	(13,851)
Gross profit		**38,620**	24,367
Other income and gains		**75,041**	47,817
Selling and distribution expenses		**(744)**	(10,463)
Research and development costs		**(92,258)**	(118,814)
Administrative expenses		**(25,948)**	(17,969)
Other expenses		**(502)**	(2,012)
Finance costs		**(70)**	(57)
Share of loss of an associate		**(10,698)**	(10,867)
LOSS BEFORE TAX	*5*	**(16,559)**	(87,998)
Income tax	*6*	**–**	–
LOSS FOR THE PERIOD		**(16,559)**	(87,998)
Attributable to:			
Owners of the parent		**(16,559)**	(87,998)
LOSS PER SHARE			
		RMB	RMB
Basic and diluted	*8*	**(1.52) cents**	(8.10) cents

The notes on pages 49 to 60 form part of these financial statements.

Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2023 – unaudited

	2023 *RMB'000*	2022 *RMB'000*
LOSS FOR THE PERIOD	**(16,559)**	(87,998)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,030**	3,090
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements into presentation currency	**52,782**	66,127
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**53,812**	69,217
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**37,253**	(18,781)
Attributable to:		
Owners of the parent	**37,253**	(18,781)

The notes on pages 49 to 60 form part of these financial statements.

Interim Consolidated Statement of Financial Position

at 30 June 2023 – unaudited

	Notes	30 June 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**61,465**	67,113
Advance payments for property, plant and equipment		**1,035**	1,215
Right-of-use assets		**3,529**	4,713
Other intangible assets		**15,514**	16,559
Investment in an associate		**11,687**	22,018
Long-term deferred expenditure		**573**	698
Total non-current assets		**93,803**	112,316
CURRENT ASSETS			
Inventories		**27,416**	20,519
Trade receivables	10	**5,635**	23,873
Financial assets at fair value through profit or loss		**3,500**	11,200
Prepayments, other receivables and other assets		**16,551**	18,300
Cash and cash equivalents		**469,694**	403,768
Time deposits with original maturity over three months		**2,043,212**	2,067,066
Total current assets		**2,566,008**	2,544,726
CURRENT LIABILITIES			
Trade payables	11	**6,953**	3,135
Other payables and accruals		**72,855**	101,050
Lease liabilities		**1,871**	2,416
Deferred income		**1,588**	1,588
Total current liabilities		**83,267**	108,189
NET CURRENT ASSETS		**2,482,741**	2,436,537
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,576,544**	2,548,853

The notes on pages 49 to 60 form part of these financial statements.

Interim Consolidated Statement of Financial Position

at 30 June 2023 – unaudited (continued)

	30 June 2023 *RMB'000*	31 December 2022 *RMB'000*
NON-CURRENT LIABILITIES		
Lease liabilities	**1,168**	1,821
Deferred income	**6,352**	7,146
Total non-current liabilities	**7,520**	8,967
Net assets	**2,569,024**	2,539,886
EQUITY		
Equity attributable to owners of the parent		
Share capital	**742**	742
Reserves	**2,568,282**	2,539,144
Total equity	**2,569,024**	2,539,886

Approved and authorised for issue by the Board of Directors on 21 August 2023.

Dr. Jinzi Jason WU	Mrs. Judy Hejingdao WU
Director	Director

The notes on pages 49 to 60 form part of these financial statements.

Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023 – unaudited

	Attributable to owners of the parent						
	Share capital *RMB'000*	Treasury shares* *RMB'000*	Share premium account* *RMB'000*	Capital reserve* *RMB'000*	Exchange fluctuation reserve* *RMB'000*	Accumulated losses* *RMB'000*	Total equity *RMB'000*
At 1 January 2023	**742**	**–**	**2,866,831**	**666,896**	**35,105**	**(1,029,688)**	**2,539,886**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(16,559)**	**(16,559)**
Other comprehensive income for the period:							
Exchange differences	**–**	**–**	**–**	**–**	**53,812**	**–**	**53,812**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**–**	**53,812**	**(16,559)**	**37,253**
Shares repurchased**	**–**	**(10,043)**	**–**	**–**	**–**	**–**	**(10,043)**
Equity-settled share award and option arrangements	**–**	**–**	**–**	**1,928**	**–**	**–**	**1,928**
At 30 June 2023	**742**	**(10,043)**	**2,866,831**	**668,824**	**88,917**	**(1,046,247)**	**2,569,024**

* These reserve accounts comprise the consolidated reserves of RMB2,568,282,000 in the consolidated statement of financial position as at 30 June 2023.

** In June 2023, the Company repurchased 5,705,000 of its ordinary shares on the Stock Exchange for a total cash consideration of HK$10,950,000 (equivalent to approximately RMB10,043,000) and cancelled the shares in August 2023.

	Attributable to owners of the parent						
	Share capital *RMB'000*	Treasury shares* *RMB'000*	Share premium account* *RMB'000*	Capital reserve* *RMB'000*	Exchange fluctuation reserve* *RMB'000*	Accumulated losses* *RMB'000*	Total equity *RMB'000*
At 1 January 2022	746	(18,709)	2,883,558	664,670	(86,348)	(714,845)	2,729,072
Loss for the period	–	–	–	–	–	(87,998)	(87,998)
Other comprehensive loss for the period:							
Exchange differences	–	50	–	–	69,167	–	69,217
Total comprehensive income/(loss) for the period	–	50	–	–	69,167	(87,998)	(18,781)
Shares cancelled	(5)	18,659	(18,654)	–	–	–	–
Issue of shares	1	–	960	–	–	–	961
Transfer of capital reserve upon the exercise of share options	–	–	899	(899)	–	–	–
Equity-settled share award and option arrangements	–	–	–	1,866	–	–	1,866
At 30 June 2022	742	–	2,866,763	665,637	(17,181)	(802,843)	2,713,118

* These reserve accounts comprise the consolidated reserves of RMB2,712,376,000 in the consolidated statement of financial position as at 30 June 2022.

The notes on pages 49 to 60 form part of these financial statements.

Interim Condensed Consolidated Cash Flows Statement

For the six months ended 30 June 2023 – unaudited

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(16,559)**	(87,998)
Adjustments for:			
Finance costs		**70**	57
Share of loss of an associate		**10,698**	10,867
Bank interest income		**(48,964)**	(13,362)
Investment income from financial assets at fair value through profit or loss		**(3,865)**	(1,194)
Loss on disposal of items of property, plant and equipment		**3**	4
Depreciation of items of property, plant and equipment	5	**6,332**	6,423
Depreciation of right-of-use assets	5	**1,184**	1,070
Amortisation of intangible assets	5	**1,257**	7,454
Amortisation of long-term deferred expenditure		**151**	109
Impairment of/(reversal of impairment) inventories	5	**6**	(1,150)
(Reversal of impairment)/impairment of trade receivables	5	**(5)**	5
Equity-settled share award and option expense	5	**1,928**	1,866
Foreign exchange differences, net	5	**(17,487)**	(32,135)
		(65,251)	(107,984)
Increase in inventories		**(6,903)**	(5,622)
Increase in long-term deferred expenditure		**(26)**	(6)
Decrease/(increase) in trade receivables		**18,243**	(3,685)
Decrease/(increase) in prepayments, other receivables and other assets		**1,749**	(4,780)
Increase in trade payables		**3,818**	4,905
(Decrease)/increase in other payables and accruals		**(27,814)**	4,897
Decrease in deferred income		**(794)**	(794)
Cash used in operations		**(76,978)**	(113,069)
Interest received		**9,019**	13,362
Net cash flows used in operating activities		**(67,959)**	(99,707)

Certain comparative figures of cash flow statement have been adjusted to conform to current period's presentation and to provide comparative amounts.

The notes on pages 49 to 60 form part of these financial statements.

Interim Condensed Consolidated Cash Flows Statement

For the six months ended 30 June 2023 – unaudited (continued)

	2023 *RMB'000*	2022 *RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(1,849)**	(4,911)
Proceeds from sale of property, plant and equipment	**5**	–
Purchase of intangible assets	**(212)**	(7,325)
Purchase of wealth management products and structured deposits	**(504,000)**	(165,000)
Proceeds from disposal of wealth management products and structured deposits	**511,700**	165,000
Investment income from financial assets at fair value through profit or loss	**3,865**	1,194
Decrease/(increase) in time deposits with original maturity over three months	**132,176**	(560,840)
Net cash flows generated from/(used) in investing activities	**141,685**	(571,882)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal portion of lease payments	**(1,285)**	(1,000)
Interest paid for lease liabilities	**(70)**	(57)
Payment for repurchase of shares	**(10,043)**	–
Proceeds from issue of shares	**–**	961
Net cash flows used in financing activities	**(11,398)**	(96)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**62,328**	(671,685)
Cash and cash equivalents at beginning of period	**403,768**	1,727,411
Effect of foreign exchange rate changes, net	**3,598**	47,294
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**469,694**	1,103,020

Certain comparative figures of cash flow statement have been adjusted to conform to current period's presentation and to provide comparative amounts.

The notes on pages 49 to 60 form part of these financial statements.

Notes to the Unaudited Interim Financial Report

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 25 February 2014. The registered office address of the Company is located at 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands. The principal place of business in Hong Kong of the Company is located at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the research and development, production, marketing and sale of pharmaceutical products.

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 August 2018.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 21 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in note 2.2(a).

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial report performed by the independent auditor of the entity, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 41.

Notes to the Unaudited Interim Financial Report

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(a) New and amended HKFRSs

The group has applied the following new and amended HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 12, Income taxes: *Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, Income taxes: *International tax reform-Pillar Two model rules*

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended HKFRSs are discussed below:

HKFRS 17, *Insurance contracts*

HKFRS 17, which replaces HKFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the group does not have contracts within the scope of HKFRS 17.

Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Notes to the Unaudited Interim Financial Report

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) New and amended HKFRSs (Continued)

Amendments to HKAS 12, Income taxes: *Deferred tax related to assets and liabilities arising from a single transaction*

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in the annual financial statements, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

Amendments to HKAS 12, Income taxes: *International tax reform – Pillar Two model rules*

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development ("OECD") (income tax arising from such tax laws is hereafter referred to as "Pillar Two income taxes"), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax. The amendments are immediately effective upon issuance and require retrospective application.

The standard does not have a material impact on these financial statements currently as the group does not reach the threshold to be taxed under Pillar Two model rules.

Notes to the Unaudited Interim Financial Report

3. OPERATING SEGMENT INFORMATION

Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

No further geographical segment information is presented as 100% of the Group's revenue is derived from customers based in Mainland China.

(b) Non-current assets

	30 June 2023 ***RMB'000***	31 December 2022 *RMB'000*
Mainland China	**82,040**	90,238
Cayman Islands	**12**	15
United States	**11,751**	22,063
Total	**93,803**	112,316

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

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2023 ***RMB'000***	2022 *RMB'000*
Revenue from contracts with customers	**46,506**	38,218

Notes to the Unaudited Interim Financial Report

4. REVENUE (Continued)

Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Types of goods or services		
Promotion service revenue	**–**	32,998
Sale of products	**43,788**	5,220
Others	**2,718**	–
Total revenue from contracts with customers	**46,506**	38,218
Geographical markets		
Mainland China	**46,506**	38,218
Timing of revenue recognition		
Goods/services transferred at a point in time		
– Promotion service revenue	**–**	32,998
– Sale of products	**43,788**	5,220
– Others	**2,718**	–
Total revenue from contracts with customers	**46,506**	38,218

5. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Cost of inventories sold	**7,886**	2,953
Cost of services provided	**–**	10,898
Depreciation of items of property, plant and equipment	**6,332**	6,423
Depreciation of right-of-use assets	**1,184**	1,070
Amortisation of intangible assets	**1,257**	7,454
Write-down of/(reversal of write-down of) inventories to net realisable value	**6**	(1,150)
(Reversal of impairment)/impairment of trade receivables	**(5)**	5
Auditor's remuneration	**543**	750
Research and development costs	**92,258**	118,814
Exchange differences, net	**(17,853)**	(32,196)
Equity-settled share award and option expense	**1,928**	1,866

Notes to the Unaudited Interim Financial Report

6. INCOME TAX

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

The Group calculates the income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The Group did not incur any income tax expenses as the Group did not generate taxable income for the periods ended 30 June 2023 and 2022.

7. DIVIDENDS

The board of directors does not recommend the payment of any dividend in respect of the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

8. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss attributable to ordinary equity holders of the parent for the period, and the weighted average number of ordinary shares of 1,086,924,000 (six months ended 30 June 2022: 1,086,924,000) in issue during the period, as adjusted to reflect the rights issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2023 and 2022 in respect of a dilution as the impact of the share award and options had an anti-dilutive effect on the basic loss per share amounts presented.

The calculation of basic loss per share is based on:

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Loss		
Loss attributable to ordinary equity holders of the parent	**(16,559)**	(87,998)

	For the six months ended 30 June	
	2023	2022
Shares		
Weighted average number of shares in issue during the period	**1,086,924,000**	1,086,924,000

Notes to the Unaudited Interim Financial Report

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired assets at a cost of RMB691,000 (six months ended 30 June 2022: RMB2,397,000).

Assets with a net book value of RMB8,000 were disposed of by the Group during the six months ended 30 June 2023 (30 June 2022: RMB4,000), resulting in a net loss on disposal of RMB3,000 (30 June 2022: RMB4,000).

10. TRADE RECEIVABLES

	30 June 2023 ***RMB'000***	31 December 2022 *RMB'000*
Trade receivables	**5,635**	23,878
Impairment	**–**	(5)
	5,635	23,873

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

	30 June 2023 ***RMB'000***	31 December 2022 *RMB'000*
Within 3 months	**–**	13,537
3 to 6 months	**5,635**	10,336
	5,635	23,873

11. TRADE PAYABLES

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

	30 June 2023 ***RMB'000***	31 December 2022 *RMB'000*
Within 3 months	**6,953**	2,365
3 to 12 months	**–**	745
1 to 2 years	**–**	25
	6,953	3,135

Notes to the Unaudited Interim Financial Report

12. CONTINGENT LIABILITIES

On 29 December 2022, Viking Therapeutics, Inc. ("Viking"), a pharmaceutical company in the United States, filed certain complaints against the Company, its founder Jinzi Jason WU and certain subsidiaries of the Company in connection with the Group's drug candidates ASC41 and ASC43F. The Company believes that the allegations brought by Viking have no merit and will vigorously defend against the complaints. Accordingly, the Group has not made any provision for the allegations arising from the complaints filed by Viking as at 30 June 2023.

13. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2023 ***RMB'000***	31 December 2022 *RMB'000*
Contracted, but not provided for:		
Acquisition of plant and machinery	**447**	1,865

The group has entered several exclusive license agreements with other parties and is eligible to pay potential milestone payments in relation to these agreements.

14. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

There were no related party transactions during the six months ended 30 June 2023 and 2022.

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

	For the six months ended 30 June	
	2023 ***RMB'000***	2022 *RMB'000*
Short-term employee benefits	**13,007**	12,116
Pension scheme contributions	**286**	179
Equity-settled share award and option expense	**1,549**	1,428
Total compensation paid to key management personnel	**14,842**	13,723

Notes to the Unaudited Interim Financial Report

15. FINANCIAL INSTRUMENTS BY CATEGORY

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

30 June 2023

Financial assets

	Financial assets at amortised cost *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
Trade receivables	**5,635**	**–**	**5,635**
Financial assets included in prepayments, other receivables and other assets	**3,097**	**–**	**3,097**
Structured deposits	**–**	**3,500**	**3,500**
Cash and cash equivalents	**469,694**	**–**	**469,694**
Time deposits with original maturity over three months	**2,043,212**	**–**	**2,043,212**
	2,521,638	**3,500**	**2,525,138**

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade payables	**6,953**	**6,953**
Financial liabilities included in other payables and accruals	**48,988**	**48,988**
	55,941	**55,941**

Notes to the Unaudited Interim Financial Report

15. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2022

Financial assets

	Financial assets at amortised cost *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
Trade receivables	23,873	–	23,873
Financial assets included in prepayments, other receivables and other assets	2,648	–	2,648
Structured deposits	–	6,000	6,000
Wealth management products	–	5,200	5,200
Cash and cash equivalents	403,768	–	403,768
Time deposits with original maturity over three months	2,067,066	–	2,067,066
	2,497,355	11,200	2,508,555

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade payables	3,135	3,135
Financial liabilities included in other payables and accruals	73,160	73,160
	76,295	76,295

Notes to the Unaudited Interim Financial Report

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts and fair values	
	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
Financial assets		
Financial assets at fair value through profit or loss	**3,500**	11,200

The Group's finance department headed by the finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the finance director. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance director. The valuation process and results are discussed with the directors once a year for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group invests in unlisted investments, which represent certain financial products issued by commercial banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using the net value published on the official website of the bank.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Financial assets at fair value through profit or loss	**–**	**3,500**	**–**	**3,500**

Notes to the Unaudited Interim Financial Report

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Financial assets at fair value through profit or loss	–	11,200	–	11,200

The Group did not have any financial liabilities measured at fair value as at 30 June 2023 and 31 December 2022.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2022: Nil).

17. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group's associate Sagimet Biosciences Inc. (NASDAQ: SGMT) officially listed on NASDAQ in July 2023. No adjustment has been made in this interim financial report in this regard.

DEFINITIONS

"3CLPro"	3-chymotrypsin like protease
"APASL Annual Meeting 2023"	2023 annual meeting of the Asian Pacific Association for the Study of the Liver
"ART"	antiretroviral therapy
"Ascletis", "Company", "the Company" or "We"	Ascletis Pharma Inc. 歌禮製藥有限公司, an exempted company incorporated in the Cayman Islands with limited liability on February 25, 2014
"Ascletis BioScience"	Ascletis BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司), a limited liability company established in the PRC on April 26, 2013 and an indirectly wholly-owned subsidiary of the Company
"Ascletis Pharmaceuticals"	Ascletis Pharmaceuticals Co., Ltd. (歌禮藥業(浙江)有限公司), a limited liability company established in the PRC on September 24, 2014 and an indirectly wholly-owned subsidiary of the Company
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of directors of the Company
"BVI"	the British Virgin Islands
"cccDNA"	covalently closed circular DNA
"C4"	7α-hydroxy-4-cholesten-3-one
"CA"	cell-associated
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the chairman of the Board
"CHB"	chronic hepatitis B
"China", "Mainland China" or "the PRC"	the People's Republic of China, excluding, for the purpose of this report, Hong Kong, Macau Special Administrative Region and Taiwan
"COVID-19"	an infectious disease caused by the coronavirus (severe acute respiratory syndrome coronavirus 2), first reported in December 2019
"CYP3A4"	cytochrome P450 3A4
"Director(s)"	the director(s) of the Company
"DNA"	deoxyribonucleic acid
"DNL"	*de novo* lipogenesis

DEFINITIONS

"Dr. Wu"	Dr. Jinzi Jason WU (吳勁梓), the founder, chairman of the Board, chief executive officer and one of the controlling shareholders of the Company
"EASL"	European Association for the Study of the Liver
"FASN"	fatty acid synthase
"FDA"	Food and Drug Administration
"FDC"	fixed-dose combination
"FGF19"	fibroblast growth factor 19
"FXR"	farnesoid X receptor
"Gannex"	Gannex Pharma Co., Ltd. (甘萊製藥有限公司), a limited liability company established in the PRC on September 3, 2019 and an indirectly wholly-owned subsidiary of the Company
"GBM"	glioblastoma
"Greater China"	Mainland China, Hong Kong, Macau and Taiwan
"Group" or "the Group"	the Company and its subsidiaries
"HBsAg"	hepatitis B surface antigen
"HBV"	hepatitis B virus
"HCV"	hepatitis C virus
"HEp-2"	human epithelioma-2
"HIV"	human immunodeficiency virus
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IND"	investigational new drug, an experimental drug for which a pharmaceutical company obtains permission to ship across jurisdictions (usually to clinical investigators) before a marketing application for the drug has been approved
"LDL"	low-density lipoprotein
"LDL-C"	LDL cholesterol

DEFINITIONS

"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on August 1, 2018
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"LLOQ"	lower limit of quantification
"mAb"	monoclonal antibody
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"MRI-PDFF"	magnetic resonance imaging proton density fat fraction
"NAFLD"	non-alcoholic fatty liver disease
"NAs"	Nucleot(s)ide analogues
"NASH"	non-alcoholic steatohepatitis
"NHC"	β-D-N4-hydroxycytidine
"NMPA"	National Medical Products Administration
"OCA"	obeticholic acid
"PBC"	primary biliary cholangitis
"PD-1"	programmed cell death protein 1
"PD-L1"	programmed death ligand 1
"Presidio"	Presidio Pharmaceuticals, Inc.
"R&D"	research and development
"RdRp"	RNA-dependent RNA polymerase
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of China
"Reporting Period"	the six-month period from January 1, 2023 to June 30, 2023
"rGBM"	recurrent glioblastoma
"RNA"	ribonucleic acid
"Roche"	F. Hoffmann-La Roche AG
"RSV"	respiratory syncytial virus

DEFINITIONS

"Sagimet Biosciences"	Sagimet Biosciences Inc., a corporation incorporated in Delaware in December 2006, whose shares are listed on the Nasdaq Stock Market (stock code: SGMT) and an associate company of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share(s)"	ordinary shares in the share capital of our Company of US$0.0001 each
"Shareholder(s)"	holder(s) of Shares
"Share Option Scheme"	the share option scheme adopted by the Company on June 6, 2019
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TG"	triglyceride
"THRβ"	thyroid hormone receptor beta
"UDCA"	ursodeoxycholic acid
"U.S."	United States of America
"U.S. dollar(s)", "USD" or "US$"	United States dollars, the lawful currency of the United States of America
"VEGF"	vascular endothelial growth factor
"Viking"	Viking Therapeutics, Inc.
"Written Guidelines"	the Guidelines for Securities Transactions by Directors adopted by the Company
"%"	per cent

In this report, the terms "associate", "connected person", "controlling shareholder" and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.