Akesobio

康方生物科技(開曼)有限公司
Akeso, Inc.

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)
Stock Code 股份代號：9926

2020 ANNUAL REPORT 年報

CONTENTS

COMPANY PROFILE

Akeso, Inc. is a biopharmaceutical company dedicated to the research, development, manufacturing and commercialization of new innovative antibody drugs that are affordable to patients worldwide. Since the Company's establishment, the Company has established an end-to-end comprehensive drug development platform (ACE Platform) and system, encompassing fully integrated drug discovery and development functions, including target validation, antibody drug discovery and development, CMC production process development, and GMP compliant scale production. The Company has also successfully developed a bi-specific antibody drug development technology (Tetrabody technology). The Company currently has a pipeline of over 20 innovative drugs for the treatment of major diseases like tumors, autoimmune diseases, inflammation and metabolic diseases, 13 of which have entered clinical stage, including two first-in-class bi-specific antibody drugs (PD-1/CTLA-4 and PD-1/VEGF). The Company's vision is to become a global leading biopharmaceutical company through research and development of high efficacy and breakthrough new drugs that are first-in-class and best-in-class therapies.

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings.

"ACE Platform"	Akeso Comprehensive Exploration platform
"ASCO"	American Society of Clinical Oncology
"Audit Committee"	the audit committee of the Board
"Board of Directors" or "Board"	the board of Directors
"BVI"	British Virgin Islands
"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China, which, for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"CMC"	chemistry, manufacturing, and controls
"Company", "our Company"	Akeso, Inc. (康方生物科技(開曼)有限公司), an exempted company with limited liability incorporated under the laws of the Cayman Islands on January 30, 2019
"CRO"	contract research organization
"CTTQ"	Chia Tai Tianqing Pharmaceutical Group Co., Ltd., the principal subsidiary of Sino Biopharmaceutical Limited (stock code: 1177), is a multinational pharmaceutical company based in the PRC. It is one of the shareholders in our subsidiary, CTTQ-Akeso
"CTTQ-Akeso"	CTTQ-Akeso (Shanghai) Biomed. Tech. Co., Ltd. (正大天晴康方(上海)生物醫藥科技有限公司), a limited liability company incorporated under the law of the PRC on August 30, 2019, one of our Group's subsidiaries
"Director(s)"	the director(s) of the Company
"dMMR"	mismatch repair deficient
"Dr. Chen"	Dr. Michael (Chen) Chen
"Dr. Zhang"	Dr. Xinfeng Zhang

"EMA"	European Medicines Agency
"ESOP Trust"	a trust established by the Company by entering into a trust deed with Zedra Trust Company (Cayman) Limited, as trustee of the trust. Dr. XIA Yu as the enforcer of the trust is able to exercise voting rights attached to the Shares held by the ESOP Trust
"FDA"	the Food and Drug Administration of the United States
"Global Offering"	the offer for subscription of an aggregate of 183,419,000 Shares (including Shares issued and allotted pursuant to the Over-allotment Option) at offer price of HK$16.18 under the Hong Kong public offering and the international offering of the Company
"GMP"	good manufacturing practice
"Group", "our Group", "our", "we" or "us"	the Company and all of its subsidiaries, or any one of them as the context may require or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries, or any one of them as the context may require, were or was engaged in and which were subsequently assumed by it
"HCC"	hepatocellular carcinoma
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hongtu Akeso"	Shenzhen Hongtu Akeso Investment Partnership (Limited Partnership)* (深圳市紅土康方投資合夥企業(有限合夥)), a limited liability partnership established in the PRC on January 15, 2019, and a Pre-IPO Investor of our Company
"Hongtu Ventures"	Guangdong Hongtu Entrepreneurship Investment Limited Company* (廣東紅土創業投資有限公司), a limited liability company established in the PRC on March 27, 2012, and a Pre-IPO Investor of our Company
"IFRS"	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
"IND"	investigational new drug or investigational new drug application, also known as clinical trial application in China or clinical trial notification in Australia

"IPO"	the initial public offering of the Shares on the Main Board of the Stock Exchange on April 24, 2020
"LI LLC"	Kampfire LLC, a limited liability company incorporated in the State of Nevada of the U.S. on June 4, 2019, with 100% of its voting shares held by Dr. LI Baiyong
"LI Trust"	The Sunny Beach Living Trust, a trust created under the laws of California of the U.S. on June 19, 2019, with its trustee being Dr. LI Baiyong and its beneficiaries being certain of Dr. LI Baiyong's family members
"Listing Date"	April 24, 2020, on which the Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Mr. Shi"	Mr. Wenjun Shi
"MSI-H"	metastatic microsatellite-instability-high
"MST"	manufacturing science and technology
"NDA"	new drug application
"NMPA"	the National Medical Products Administration of the PRC (國家藥品監督管理局) (formerly known as the China National Drug Administration and the China Food and Drug Administration)
"Nomination Committee"	the nomination committee of the Board
"NSCLC"	non-small-cell lung cancer, any carcinoma (as an adenocarcinoma or squamous cell carcinoma) of the lungs that is not a small-cell lung carcinoma
"Phaeton Capital"	Phaeton Capital Management, L.P.* (中山市迅翔股權投資管理企業(有限合夥)), a private fund manager enterprise registered with Asset Management Association of China, which manages Zhongshan Xunxiang and Zhongshan Xunying
"Prospectus"	the prospectus of the Company dated April 14, 2020

"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	for the year ended December 31, 2020
"RSU Scheme"	the restricted share unit scheme approved and adopted by our Company on August 29, 2019 as amended from time to time, for the benefit of any director, employee, adviser or consultant of the Company or any of our subsidiaries
"R&D"	Research and Development
"RMB"	Renminbi, the lawful currency of the PRC
"RSU(s)"	restricted share unit(s)
"SCGC"	Shenzhen Capital Group Co., Ltd.* (深圳市創新投資集團有限公司), a limited liability company established in the PRC on August 25, 1990, and a Pre-IPO Investor of our Company
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
"Share(s)"	ordinary share(s) with nominal value of US$0.00001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TETRABODY"	a portmanteau of the phrase "tetravalent antibody", refers to our proprietary technology for the design and production of innovative tetravalent bi-specific antibodies (with four antigenbinding sites in each antibody molecule)
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"WANG LLC"	Blazing Rosewood LLC, a limited liability company incorporated in the State of Nevada of the U.S. on June 4, 2019, with 100% of its voting shares held by Dr. WANG Zhongmin Maxwell
"WANG Trust"	The Mahogany Living Trust, a trust created under the laws of California of the U.S. on June 19, 2019, with its trustee being Dr. WANG Zhongmin Maxwell and its beneficiaries being certain of Dr. WANG Zhongmin Maxwell's family members

"XIA LLC"	Golden Oaks LLC, a limited liability company incorporated in the State of Nevada of the U.S. on June 4, 2019, with 100% of its voting shares held by Dr. XIA Yu
"XIA Trust"	The Gemstone Living Trust, a trust created under the laws of California of the U.S. on June 11, 2019, with its trustee being Dr. XIA Yu and its beneficiaries being certain of Dr. XIA Yu's family members
"Zhongshan Xunxiang"	Zhongshan Xunxiang Kangfang Equity Investment Partnership (Limited Partnership)* (中山市迅翔康方股權投資企業(有限合夥)), a limited liability partnership established in the PRC on July 22, 2015, and a Pre-IPO Investor of our Company
"Zhongshan Xunying"	Zhongshan Xunying Equity Investment Partnership (Limited Partnership)* (中山市迅盈股權投資企業(有限合夥)), a limited liability partnership established in the PRC on December 20, 2017, and a Pre-IPO Investor of our Company
"%"	per cent

* *For identification purpose only*

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. XIA Yu *(Chairwoman, president, and chief executive officer)*
Dr. LI Baiyong
Dr. WANG Zhongmin Maxwell
Mr. XIA Yu (Ph.D.)

Non-executive Directors

Dr. ZHOU Yi
Mr. XIE Ronggang

Independent Non-executive Directors

Dr. ZENG Junwen
Dr. XU Yan
Mr. TAN Bo

AUDIT COMMITTEE

Mr. TAN Bo *(Chairman)*
Dr. ZENG Junwen
Dr. XU Yan

REMUNERATION COMMITTEE

Dr. ZENG Junwen *(Chairman)*
Dr. XIA Yu
Dr. XU Yan

NOMINATION COMMITTEE

Dr. XIA Yu *(Chairwoman)*
Dr. ZENG Junwen
Dr. XU Yan

JOINT COMPANY SECRETARIES

Mr. XI Xiaojie
Ms. SUEN Pui Chun Hannah

AUTHORIZED REPRESENTATIVES

Dr. XIA Yu
Ms. SUEN Pui Chun Hannah

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

LEGAL ADVISER

As to Hong Kong and United States laws:
O'Melveny & Myers

As to Cayman Islands law:
Campbells

COMPLIANCE ADVISER

Somerley Capital Limited

PRINCIPAL BANKS

In Hong Kong:
CMB Wing Lung Bank Limited

In the PRC:
Industrial and Commercial Bank of China Limited, Zhongshan High-Tech Industrial Development Zone Technology Branch

REGISTERED OFFICE

Floor 4, Willow House
Cricket Square
Grand Cayman KY1–9010
Cayman Islands

CORPORATE HEADQUARTERS

No. 6, Shennong Road
Torch Development Zone
Zhongshan City
Guangdong Province 528437
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Campbells Corporate Services Limited
Floor 4, Willow House
Cricket Square
Grand Cayman, KY1–9010
Cayman Islands

HONG KONG SHARE REGISTRAR

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

STOCK CODE

9926

COMPANY'S WEBSITE

www.akesobio.com

LISTING DATE

April 24, 2020

CHAIRMAN'S STATEMENT

Dear shareholders,

I would like to express my sincere gratitude for your continuous trust and support on behalf of the Board of Directors. 2020 marked an extraordinary year. With substantial achievements made as a result of years of commitment and hard work, it also marked a crucial year for the success of Akeso in establishing innovative biopharmaceutical platform and system and developing innovative drugs. We achieved breakthroughs in new drug development, corporate operation and organization establishment, which demonstrated the efficient execution and synergetic capabilities of our team. These achievements also laid a solid foundation for the future corporate development and endeavor of Akeso. At this significant milestone, we are pleased to share our development results for 2020.

We have laid the foundation of Akeso for the coming century.

Over the year, we efficiently carried out a total of more than 40 clinical trials around the world, nine of which were under registrational or Phase III clinical stage. Four registrational clinical trials have reached their key endpoints. The first new drug application of Penpulimab (AK105) has been accepted by the National Medical Products Administration (NMPA) and is expected to be launched in the market in 2021, benefiting a large number of patients. Great efforts have also been made for the launch of Penpulimab in the United States. The third-line treatment of Penpulimab for patients with metastatic nasopharyngeal carcinoma has obtained breakthrough therapy designation and orphan drug designation from the Food and Drug Administration of the United States (FDA) as well as fast track designation from the FDA. In particular, the registrational clinical enrolment of the world's first-in-class PD-1/CTLA-4 bi-specific antibody new drug Cadonilimab (AK104) for the treatment of recurrent or metastatic cervical cancer has been completed. It is expected to become the first PD-1 based bi-specific antibody drug in the world which leads a new era of immuno-oncology. Cadonilimab is included in the breakthrough therapy drug list of the NMPA and has obtained orphan drug designation and fast track designation from the FDA for the treatment of recurrent or metastatic cervical cancer. We have also obtained approval from the NMPA for conducting Phase III clinical trials on Cadonilimab for the first-line treatment of unresectable locally-advanced or metastatic gastric cancer in combination with chemotherapy. Currently, Cadonilimab is under Phase II and later stage in a total of nine clinical trials for treatment of diseases including lung cancer, liver cancer, cervical cancer, gastric cancer and nasopharyngeal cancer.

During the year, our business development remained efficient and stable while our production and commercialization initiatives were proven successful. For our talent pool, a number of experts in clinical development, production and commercialization of drugs and commercial cooperation joined the Company as senior management. With the number of our staff exceeding 750, this expert team covered Zhongshan, Guangzhou, Beijing, Shanghai, Nantong, Hong Kong and Australia. In terms of production and commercialization of drugs, our Phase I manufacturing base in Sino-Singapore Guangzhou Knowledge City, Guangzhou (廣州中新知識城) has commenced production while the construction of the Akeso Cuiheng Bay District Technology Park Project (康方翠亨灣區科技園項目) has started. It is worth noting that our Phase I manufacturing base in Sino-Singapore Guangzhou Knowledge City, Guangzhou (廣州中新知識城) was built and put into production in just 15 months. The construction of these bases significant enhance the production and commercialization of the Company, ensuring our ability in making social and commercial contributions through our innovative research and development achievements.

During the year, Akeso also achieved remarkable results in capital market as the long-term value of its innovative capability and sustainable development was widely recognized. In April 2020, Akeso was successfully listed on the Main Board of the Hong Kong Stock Exchange and was included as one of the constituent stocks of the Hang Seng Index and in Stock Connect. Akeso also completed the placing of its shares in January 2021. The Company raised over HKD4,000 million in aggregate through IPO and the placing of shares, providing sufficient capital for its research and development and innovation.

Despite the challenges brought by the global outbreak of COVID-19 in 2020, we still achieved satisfactory development thanks to the contribution of our team. We would like to express our gratitude for the trust and support of shareholders and investors.

PROSPECTS

2021 will be a new chapter for the development of Akeso for the coming century. We are well-prepared for the new venture with detailed plans. We will enhance our efforts in the research and development of new drugs of high quality and the development of mass production capacity. We will press ahead with our ongoing and planned global development projects for new drugs in China and overseas (including the United States)

We expect that the new drug application for Penpulimab for treatment of patients with classical Hodgkin's lymphoma that has relapsed or refractory after second or more systemic chemotherapy will be approved in 2021 and Penpulimab will be the first marketed products of the Company. We also intend to submit new drug applications for three drugs in 2021, including Cadonilimab for treatment of patients with recurrent or metastatic cervical cancer, Penpulimab for treatment of patients with third-line metastatic nasopharyngeal cancer and Penpulimab for treatment of patients with first-line metastatic squamous non-small cell lung cancer in combination with chemotherapy. In 2021, we will speed up the clinical development of Cadonilimab, AK112 (PD-1/VEGF), AK117 (CD47), Penpulimab, AK119 (CD73), AK102 (PCSK9), AK120 (IL-4R), AK111 (IL-17) and other products. We will study the cutting-edge biotechnology and evaluate and adjust our drug discovery and clinical development plans accordingly so as to optimize our product portfolio.

In addition, in order to accelerate the commercialization of drug candidates and enhance their commercial value, we will actively seek and establish strategic partnership with value-added benefits for new drugs co-development and cooperation for licensing for new drugs in China and overseas.

In 2021, Akeso, Inc. will join hands with you and make great efforts in innovation for brighter future. Persisting its strong belief in innovation with a focus on patients' well-being, Akeso will uphold its original aspiration and live up to the mission and responsibilities of our pioneers. Akeso, Inc. will exert its utmost efforts to promote the development of biopharmaceutical industry in China and create social and commercial value.

Dr. XIA Yu
Chairwoman and executive director

FINANCIAL HIGHLIGHTS

The following table sets out a comparison between key financial figures for the years ended December 31, 2020 and 2019:

FINANCIAL HIGHLIGHTS

	Year Ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Revenue	**—**	70,879
Other income and gains, net	**123,524**	50,186
Research and development expenses	**(768,589)**	(308,388)
Administrative expenses	**(253,029)**	(55,421)
Loss for the year	**(1,320,579)**	(346,454)
Total comprehensive loss for the year	**(1,552,516)**	(348,521)
Adjusted total comprehensive loss for the year*	**(747,452)**	(238,211)

* Adjusted total comprehensive loss is not defined under the International Financial Reporting Standard (the "**IFRS**"), it represents the total comprehensive loss excluding the effect brought by equity-settled share award expenses, listing expenses and fair value changes on convertible redeemable preferred shares.

IFRS Measures:

- Revenue was RMB70.9 million for the year ended December 31, 2019, which was generated from the receipt of the milestone payment in connection with our out-licensed product AK107.

- Other income and gains, increased by RMB73.3 million from RMB50.2 million for the year ended December 31, 2019 to RMB123.5 million for the year ended December 31, 2020. The increase was primarily attributable to interests earned on the proceeds from the Company's IPO on the Stock Exchange and the increase in subsidies from local government for research and development activities.

- Research and development expenses increased by RMB460.2 million from RMB308.4 million for the year ended December 31, 2019 to RMB768.6 million for the year ended December 31, 2020. The increase was primarily attributable to the clinical trial advancement and increased staff costs as a result of the increase in headcount in research and development personnel and the increase in employee salaries and related benefit costs including equity-settled share award expenses.

- Administrative expenses increased by RMB197.6 million from RMB55.4 million for the year ended December 31, 2019 to RMB253.0 million for the year ended December 31, 2020, primarily attributable to the increase in listing expenses in connection with the IPO and the increase in employee salaries and benefits including equity-settled share award expenses and the increase in headcount of non-research and development personnel.

- The loss for the year increased by RMB974.1 million from RMB346.5 million for the year ended December 31, 2019 to RMB1,320.6 million for the year ended December 31, 2020. The increase was attributable to (i) the increase of the loss in the amount of RMB659.1 million mainly as a result of the above factors; and (ii) a non-cash, one time change of RMB315.0 million in the fair value of convertible redeemable preferred shares as required under the IFRS.

Non-IFRS Measures:

Adjusted total comprehensive loss represents the total comprehensive loss excluding the effect brought by equity-settled share award expenses, listing expenses and certain non-cash items and non-recurring events, namely the fair value changes on convertible redeemable preferred shares.

The term adjusted total comprehensive loss is not defined under the IFRS. The table below sets forth a reconciliation of the total comprehensive loss to adjusted total comprehensive loss:

	Year Ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Total comprehensive loss for the year	**(1,552,516)**	(348,521)
Added:		
Fair value changes on convertible redeemable preferred shares	**412,421**	97,382
Equity-settled share award expenses	**347,151**	—
Listing expenses	**45,492**	12,928
Adjusted total comprehensive loss for the year	**(747,452)**	(238,211)

BUSINESS HIGHLIGHTS

On April 24, 2020, the Company was successfully listed on the Stock Exchange. We have made significant progress with respect to our product pipeline and business operations since our Listing Date:

Oncology

- ***PD-1/CTLA-4 bi-specific antibody (AK104):***

  1. *Clinical Progress:*

     — In April 2020, the Company obtained the IND approval from the FDA to initiate a registrational clinical trial of AK104 monotherapy as second-line therapy in patients with recurrent or metastatic cervical cancer.

     — In May 2020, the Company obtained approval from the NMPA to initiate a pivotal registrational trial for third-line treatment of patients with metastatic nasopharyngeal carcinoma and the first patient has been successfully dosed with AK104 in this trial.

     — In July 2020, the first patient was successfully dosed with AK104 in combination with Lenvatinib for first-line treatment for advanced HCC.

     — In August 2020, FDA granted Fast Track designation to AK104 monotherapy for the treatment of patients with recurrent or metastatic cervical cancer.

     — In October 2020, AK104, which is designated for treating recurrent or metastatic cervical cancer, was included in the list of "Breakthrough Therapy Designation" by the NMPA.

     — In December 2020, the Company completed the patient screening for enrollment in advance in a registrational Phase II clinical trial for AK104, which is designated for treating patients suffering from recurrent or metastatic cervical cancer in China.

  2. *Data Readouts:*

     — In September 2020, the Company orally presented the latest information of AK104 for treating advanced mesothelioma at ESMO 2020.

     — In November 2020, the periodic data of AK104, which is designated for treating recurrent or metastatic cervical cancer, was released at the 2020 China Immuno-Oncology Conference.

- ***PD-1/VEGF bi-specific antibody (AK112):***

  1. *Clinical Progress:*

     — In August 2020, the Company obtained NMPA approval for AK112 to advance to Phase Ib of clinical trial for advanced solid tumors in China.

  2. *Data Readouts:*

     — In November 2020, the periodic data of Phase Ia clinical research of AK112 was released at the 2020 China Immuno-Oncology Conference.

- ***CD47 monoclonal antibody (AK117):***

  1. *Clinical Progress:*

     — In May 2020, the first patient was successfully dosed with AK117 in Australia. Currently, the clinical trial for dose escalation of AK117 for patients with advanced solid tumors and lymphomas is being carried out in Australia.

     — In September 2020, the Company obtained the IND approval from the NMPA for AK117 in China.

  2. *Data Readouts:*

     — In November 2020, the first in-human clinical study progress of AK117 was presented at SITC 2020.

- ***PD-1 monoclonal antibody (Penpulimab, AK105):***

  1. *Clinical Progress:*

     — In May 2020, NMPA accepted the new drug application of Penpulimab (AK105) injection for the treatment of patients with classical Hodgkin's lymphoma that is relapsed or refractory (r/r) after at least two lines of systemic chemotherapy (r/r cHL).

     — In October 2020, the registrational clinical trial for third-line metastatic nasopharyngeal cancer with AK105 reached key endpoints and obtained Fast Track designation from the FDA.

     — In October 2020, the enrollment in Phase III clinical trial in combination with chemotherapy for first-line metastatic squamous non-small cell lung cancer with AK105 was completed.

— The Company jointly initiated or are initiating multiple Phase II/III clinical trials of AK105 in combination with Anlotinib with CTTQ for various indications including:

  — Non-squamous non-small cell lung cancer (nsq-NSCLC);
  — Small cell lung cancer (SCLC);
  — Gastric cancer (GC);
  — Esophageal squamous cell carcinoma (ESCC);
  — Hepatocellular carcinoma (HCC);
  — Urothelial carcinoma (UC);
  — Head and neck cancer (HNC);
  — MSI-H or mismatch repair deficient (dMMR) solid tumor;
  — Neuroendocrine carcinoma, and etc.

2. *Data Readouts:*

— In November 2020, the Company presented the latest information regarding the study of AK105 for treatment of patients with relapsed or refractory classic Hodgkin's lymphoma and treatment of patients with metastatic nasopharyngeal carcinoma who had progressed after two or more lines of chemotherapy at SITC 2020.

- ***CD73 monoclonal antibody (AK119):***

  Clinical Progress:

  — In October 2020, the first healthy subject was successfully dosed with AK119 for the treatment of COVID-19 in a clinical trial conducted in New Zealand.

- ***VEGFR-2 monoclonal antibody (AK109):***

  Clinical Progress:

  — In June 2020, the first patient with advanced solid tumor was enrolled and dosed in Phase I clinical trial of AK109 dose escalation in China.

Immunology and Other Therapeutic Areas

- ***PCSK9 monoclonal antibody (Ebronucimab, AK102):***

  Clinical Progress:

  — In December 2020, the Company completed the enrollment of patients in Phase IIb clinical trial of AK102 for the treatment of patients with a high or very high risk of hypercholesterolemia in China. The Company will launch Phase III clinical trial for the respective indications in China soon.

- ***IL-4R monoclonal antibody (AK120):***
  Clinical Progress:
  - In June 2020, the first healthy subject was successfully dosed with AK120 in Phase Ia clinical trial in New Zealand.
  - In October 2020, the first patient was successfully enrolled in multi-dose escalation of AK120 in Phase Ib clinical trial in New Zealand and Australia for treatment of moderate-to-severe atopic dermatitis.
  - In December 2020, Phase Ib clinical trial of AK120 for treatment of moderate-to-severe atopic dermatitis in the United States was approved by the FDA.

- ***IL-12/IL-23 monoclonal antibody (AK101):***
  Clinical Progress:
  - In May 2020, the IND application for the treatment of ulcerative colitis for AK101 was approved by the NMPA to initiate clinical trials in China, which marked the clinical trial approval granted to AK101 in addition to the previous one from the FDA to initiate clinical trials for the treatment of ulcerative colitis.

- ***IL-17 monoclonal antibody (AK111):***
  Clinical Progress:
  - In June 2020, the first patient of moderate-to-severe psoriasis was successfully enrolled and dosed with AK111 in Phase Ib clinical trial in China.

RECENT DEVELOPMENT AFTER THE REPORTING PERIOD

We continued to make significant progress in our drug pipeline and business operations after the Reporting Period, including the following major milestones and achievements. As of the date of this annual report, we have progressed 6, 23 and 8 clinical programs into Phase Ia, Ib/II and pivotal/III studies, respectively. We have also increased the total number of ongoing registrational or pivotal trials to 9. Moreover, we have received 5 IND approvals after the Reporting Period.

1. Clinical Progress:

- In January 2021, latest results of phase Ib/II study of AK104 in the first-line treatment of advanced gastric cancer or adenocarcinoma of gastroesophageal junction in combination with chemotherapy published at the 2021 ASCO GI.
- In January 2021, successful dosing of the first patient with combination of AK104 and AK119 for treatment of advanced solid tumors in Phase I clinical trial.
- In January 2021, latest study of AK105 in combination with anlotinib for first-line advanced HCC published at the 2021 ASCO GI.
- In February 2021, AK104 obtained orphan drug designation from the FDA for treating cervical cancer (except very early stage IA1).
- In February 2021, AK105 in combination with paclitaxel and carboplatin for first-line treatment of locally advanced or metastatic squamous non-small cell lung cancer has reached key research endpoints.
- In February 2021, the clinical trial application for IL-4R monoclonal antibody (AK120) was accepted by the NMPA.
- In February 2021, IL-17 monoclonal antibody (AK111) for treatment of axial spondylitis has obtained clinical trial approval from the NMPA.

2. Clinical Progress of our Business Development Partner:

- In March 2021, a combination therapy of CTLA-4 monoclonal antibody (AK107/MK-1308), an antibody we out-licensed to Merck, with Merck's PD-1 (Keytruda) has received clinical trial permission in China.

3. Others:

- In January 2021, the Company raised approximately HK$1.19 billion through a placing of new shares to further strengthen our financial position and expedite the development of corporate operation and various clinical programs.
- In February 2021, the Company completed GMP commissioning and process validation, and commenced GMP production of our Phase I commercialization manufacturing base in Guangzhou, with the manufacturing facilities housing up to 20,000 L disposable bioreactors.

OTHER HIGHLIGHTS

Human Resources Management

In order to fully support our continued growth, we continue to invest in attracting and retaining top talents, expand our talent pool and enhance our capabilities in various aspects of our operations including clinical development and commercialization.

The following table sets forth a breakdown of our employees by function as of December 31, 2020:

Function	Number of employees	% of total
Research and Development	160	21.5
Clinical	195	26.1
Manufacturing	233	31.3
Sourcing	13	1.7
Selling, General and Administrative	145	19.4
Total	746	100

Talent Acquisitions

In July 2020, we appointed Dr. Xinfeng Zhang as senior vice president of the Company. Dr. Zhang has extensive experience in global biopharmaceutical CMC operation and is responsible for CMC development, MST, and technology transfer for antibody drugs of the Company.

In July 2020, we appointed Dr. Michael (Chen) Chen as business development vice president of the Company. Dr. Chen has extensive experience in global business development and is responsible for overseeing the global business development of the Company.

In August 2020, we appointed Mr. Wenjun Shi as senior vice president of the commercialization department of the Company. Mr. Shi has extensive experience in pharmaceutical commercialization in China and is responsible for the commercialization of the Company in China.

In October 2020, we also appointed Dr. Jason Ni as senior vice president of the medical department of the Company. Dr. Ni has extensive experience in global drug development and is responsible for the clinical non-oncology medical team, pharmacovigilance division, clinical quality division and other relevant work of the Company.

For details of any of the foregoing, please refer to the rest of this annual report and, where applicable, the Company's prior announcements published on the website of the Stock Exchange and the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

We are a clinical-stage biopharmaceutical company committed to in-house discovery, development and commercialization of first-in-class and best-in-class therapies. We are dedicated to addressing global unmet medical needs in oncology, immunology and other therapeutic areas.

Our vision is to become a global leader in developing, manufacturing and commercializing innovative, next-generation and affordable therapeutic antibodies for patients worldwide.

Our business is designed to drive success through both efficient and breakthrough R&D innovation. We believe that fully integrated in-house R&D capabilities are critical to achieving success in China.

Since our inception, we have had the foresight to develop an end-to-end platform, the ACE Platform, encompassing comprehensive drug discovery and development functionalities, including target validation, antibody drug discovery and development, CMC and GMP-compliant manufacturing. Through our ACE Platform, we have developed one of the richest and most diversified innovative antibody drug pipelines in China covering over 20 drug development programs, including 13 antibodies in clinical-stage development and six bi-specific antibodies. In 2020, we have received 12 IND approvals.

In addition to the strong product portfolio, we have also utilized the scientific strengths of our clinical assets, and our management relationships, to conduct business development activities and forged landmark transactions repetitively in China's biotech industry including successful out-licensing our CTLA-4 antibody (AK107) to Merck for a total consideration of up to US$200 million, and our commercialization partnership with Chia Tai Tianqing, the principal subsidiary of Sino Biopharmaceutical Limited, a company listed on the Stock Exchange (stock code: 1177), for the joint development and commercialization of our PD-1 antibody drug candidate (Penpulimab, AK105).

During the Reporting Period, the Company was included in both the MSCI China Index and the Hang Seng Hong Kong-Listed Biotech Index as a high quality biopharmaceutical company, and was included in the Southbound trading of Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programs.

PRODUCT PIPELINE

We have 13 clinical-stage drug candidates, including ten drug candidates under internal development and other three have been licensed out. Thereinto, we licensed out a CTLA-4 monoclonal antibody (AK107) to Merck in 2015 and two other drug candidates to our commercial partners for continued clinical development in 2014 and 2016, respectively.

Oncology is one of our focused therapeutic areas. Our products in clinical trial include a PD-1/CTLA-4 bi-specific antibody (Cadonilimab, AK104), a PD-1/VEGF bi-specific antibody (AK112), a CD47 monoclonal antibody (AK117), a PD-1 monoclonal antibody (Penpulimab, AK105), a CD73 monoclonal antibody (AK119) and a VEGFR-2 monoclonal antibody (AK109). We believe that some of these candidates have the potential to become first-in-class or best-in-class therapies, as well as either important components or backbone of combination therapies.

We have also strategically developed an expertise in immunology since our inception, which positions us well to capture China's underserved and growing autoimmune disease market. In this therapeutic area, our products currently in clinical trials include a CD73 monoclonal antibody (AK119), an IL-4R monoclonal antibody (AK120), an IL-12/IL-23 monoclonal antibody (AK101) and an IL-17 monoclonal antibody (AK111).

In addition to oncology and immunology, we have several compounds targeting diseases in other therapeutic areas including a PCSK-9 monoclonal antibody (Ebronucimab, AK102) in collaboration under a joint venture agreement with Dawnrays Pharma.

The following chart summarizes the development status of our 10 internally-developed, clinical-stage antibody drug candidates as of the date of this annual report:

Drug Candidate	Target	Comm. Rights	Mono / Combo	Indication	Status: Phase Ia	Phase Ib/II	Pivotal/ Phase III	NDA Submitted
U.S. (Fast Track Designation, Orphan Drug Designation) NMPA: (Breakthrough Therapy Designation)			Mono	2L/3L cervical cancer			◑	
			Mono	3L NPC			◑	
		Registrational Trial	+XELOX	1L GC or GEJ adenocarcinoma	▲	◑	◔	
			+Lenvatinib	1L HCC	▲	◑	◔	
AK104	PD-1 / CTLA-4	Global	+Anlotinib	1L NSCLC and 2L/ 3L NSCLC (PD-(L)1 R/R)	▲	◑		
			+Chemo	1L NSCLC	▲	◑		
			+AK119 (CD73)	Adv. solid tumors	◑			
			+AK117 (CD47)	Adv. solid tumors	◔			
			+AK109 (VEGFR2)	2L GC	▲	◔		
AK112	PD-1 / VEGF	Global	+Chemo	1L NSCLC/ EGFR-TKI failure NSCLC	▲	◑		
			+Chemo	1L ES-SCLC	▲	◑		
			Mono	1L NSCLC	▲	◑		
			Mono	Gynecological tumors		◑		
			Mono	Adv. solid tumors	◑	◑		
			+AK117 (CD47)	Adv. solid tumors	◔			
AK117	CD47	Global	+AK104 (PD-1/CTLA-4)	Adv. solid tumors	◔			
			Mono	Solid tumor/ lymphoma	◑	◔		
			+azacitidine	MDS		◔		
			+azacitidine	AML		◔		
			+AK112 (PD-1/VEGF)	Adv. solid tumors	◔			

● = Completed ◕ = Completed patient enrollment ◑ = In progress ◔ = Expected first patient in 1H 2021 ○ = In planning

▲ = Large indications ⬚ = Registration trial 🌐 = Global trial

Drug Candidate	Target	Comm. Rights	Mono / Combo	Indication	Status: Phase Ia	Phase Ib/II	Pivotal/ Phase III	NDA Submitted
U.S. (Breakthrough Therapy Designation, Fast Track Designation, Orphan Drug Designation)								
			Mono	3L R/R cHL				●
			Mono	≥3L NPC			◕	
			+Chemo	1L sq-NSCLC ▲			◕	
			+Anlotinib	1L nsq-NSCLC ▲			◑	
			+Anlotinib	1L HCC ▲			◑	
			+Anlotinib	2L GC ▲			◑	
AK105	PD-1	Global	+Chemo	1L nsq-NSCLC ▲			◑	
			+Anlotinib	dMMR		◑		
			+Anlotinib	NSCLC, SCLC, HNC, thyroid cancer, mesothelioma and thymic cancer		◑		
			+Anlotinib	ESCC, UC, GC/GEJ, cholangiocarcinoma, neuroendocrine tumor (NET)		◑		
			+Chemo +/- Anlotinib	1L NPC		◑		
			Mono 🌐	COVID-19		◑		
AK119	CD73	Global	Mono 🌐	Solid tumors	◑			
			+AK104 (PD-1/CTLA-4) 🌐	Solid tumors	◑			
AK109	VEGFR-2	Global	Mono	Adv. solid tumors		◑		
			+AK104 (PD-1/CTLA-4)	2L GC		◔		
AK102	PCSK9	Global	AK102 / Placebo+ Statin / Ezetimibe	Hypercholesterolemia		◕	◔	
			AK102 / Placebo+ Statin / Ezetimibe	HeFH		◑		
			AK102 / Placebo+ Statin / Ezetimibe	HoFH		◑		
AK120	IL-4R	Global	Mono 🌐	Moderate-to-severe atopic dermatitis		◑		
			Mono	Moderate-to-severe asthma		◔		
			Mono 🌐	Eosinophilic esophagitis		◔		
AK101	IL-12/IL-23	Global	Mono	Moderate-to-severe psoriasis		◕	◔	
			Mono	Moderate-to-severe ulcerative colitis		◑		
AK111	IL-17	Global	Mono	Moderate-to-severe psoriasis		◕		
			Mono	Ankylosing spondylitis		◔		

● = Completed ◕ = Completed patient enrollment ◑ = In progress ◔ = Expected first patient in 1H 2021 ○ = In planning

▲ = Large indications [ ] = Registration trial 🌐 = Global trial

Abbreviations: 1L = first-line; 2L = second-line; 3L = third-line; Adv. = advanced; AML = acute myeloid leukemia; cHL = classic Hodgkin's lymphoma; Chemo = chemotherapy; Combo = combination therapy; Comm. = commercial; COVID-19 = Coronavirus Disease 2019; dMMR = mismatch repair deficient; EGFR-TKI = epidermal growth factor receptor tyrosine kinase inhibitors; ES = extensive stage; ESCC = esophageal squamous cell carcinoma; GC = gastric cancer; GEJ = gastroesophageal junction; HCC = hepatocellular carcinoma; HeFH = heterozygous familial hypercholesterolemia; HoFH = homozygous familial hypercholesterolemia; HNC = head and neck cancer; MDS = myelodysplastic syndrome; Mono = monotherapy; NHL = non-Hodgkin's lymphoma; NPC = nasopharyngeal cancer; nsq-NSCLC = non-squamous non-small cell lung cancer; NSCLC = non-small cell lung cancer; R/R = relapsed/refractory; SCLC = small cell lung cancer; sq-NSCLC = squamous non-small cell lung cancer; UC = urothelial carcinoma.

BUSINESS REVIEW

In 2020, we continued to make significant progress in our product pipeline and business operations, including the following milestones and achievements:

Our Product Candidates

Oncology

- **PD-1/CTLA-4 bi-specific antibody (Cadonilimab, AK104)**: AK104 is our first-in-class PD-1/CTLA-4 bi-specific antibody designed to achieve preferential binding to tumor infiltrating lymphocytes rather than normal peripheral tissue lymphocytes. It has demonstrated the clinical efficacy of the combination therapy of PD-1 and CTLA-4 monoclonal antibodies, together with a favorable safety profile that the combination therapy of PD-1 and CTLA-4 monoclonal antibodies has failed to offer.

  For AK104, we have initiated a Phase Ia trial in Australia, and six Phase Ib and Phase II trials in China, including two Phase II basket trials covering multiple tumor types. Based on the current clinical development plan and our fast-to-market strategy, we expect to file the first NDA of AK104 in China for cervical cancer in the second half of 2021. Since our IPO, we have achieved the following progress or milestone(s):

  1. *Clinical Progress:*

     — In April 2020, the Company obtained the IND approval from the FDA to initiate a registrational clinical trial of AK104 monotherapy as second-line therapy in patients with recurrent or metastatic cervical cancer.

     — In May 2020, the Company obtained approval from the NMPA to initiate a pivotal registrational trial for third-line treatment of patients with metastatic nasopharyngeal carcinoma and the first patient has been successfully dosed with AK104 in this trial.

     — In July 2020, the first patient was successfully dosed with AK104 in combination with Lenvatinib for first-line treatment for advanced HCC.

     — In August 2020, FDA granted Fast Track designation to AK104 monotherapy for the treatment of patients with recurrent or metastatic cervical cancer.

     — In October 2020, AK104, which is designated for treating recurrent or metastatic cervical cancer, was included in the list of "Breakthrough Therapy Designation" by the NMPA.

     — In December 2020, the Company completed the patient screening for enrollment in advance in a registrational Phase II clinical trial for AK104, which is designated for treating patients suffering from recurrent or metastatic cervical cancer in China.

2. *Data Readouts:*

— In September 2020, the Company orally presented the latest information of AK104 for treating advanced mesothelioma at ESMO 2020.

— In November 2020, the periodic data of AK104, which is designated for treating recurrent or metastatic cervical cancer, was released at the 2020 China Immuno-Oncology Conference.

The table below sets forth details of our clinical development plan for AK104.

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
2L/3L cervical cancer*	Pivotal	Mono	September 2019	2H 2021	China/NMPA
3L NPC	Phase II	Mono	May 2020	—	China
1L GC or GEJ adenocarcinoma*	Phase II	Combo (with XELOX)	January 2019	—	China
1L HCC	Phase II	Combo (with Lenvatinib)	July 2020	—	China
1L NSCLC and 2L/3L NSCLC (PD-(L)1R/R)**	Phase II	Combo (with Anlotinib)	November 2020	—	China
1L NSCLC	Phase II	Combo (with chemo)	December 2020	—	China
Advanced solid tumors	Phase Ia	Combo (with AK119 (CD73))	January 2021	—	Australia
Advanced solid tumors	Phase Ia	Combo (with AK117 (CD47))	In planning	—	China
2L GC	Phase Ib/II	Combo (with AK109 (VEGFR2))	In planning	—	China

Abbreviations: 1H = first half; 2H = second half; 1L = first-line; 2L = second-line; 3L = third-line; GC = gastric cancer; GEJ = gastroesophageal junction; HCC = hepatocellular carcinoma; NPC = nasopharyngeal cancer; NSCLC = non-small cell lung cancer; R/R = relapsed/refractory.

Notes: (1) Denotes the date on which the first patient was or is expected to be enrolled.

* denotes the indications evaluated in the basket trial No. 1.

** denotes the indications evaluated in the basket trial No. 2. If promising efficacy signals are observed in these selected indications, we may expand these basket trials into a registrational trial or initiate a Phase III trial (which may include the sites in the United States).

- **PD-1/VEGF bi-specific antibody (AK112)**: AK112 is a potential first-in-class PD-1/VEGF bi-specific antibody. Given the strong correlation between VEGF and PD-1 expression in the tumor microenvironment, the simultaneous blockade of these two targets by AK112 as a single agent might achieve higher target binding specificities and synergistically produce enhanced antitumor activity compared to co-administration of anti-PD-(L)1 and anti-VEGF therapies. Engineered with our TETRABODY technology, AK112 blocks PD-1 binding to PD-L1 and PD-L2, and blocks VEGF binding to VEGF receptors, thus inhibiting tumor cell proliferation and tumor angiogenesis.

  In October 2019, the first patient was successfully enrolled in Phase Ia clinical trial of AK112 for the treatment of solid tumors in Australia in October 2019. We also obtained IND approval from FDA in June 2019. Since our IPO, we have achieved the following progress or milestone(s):

  1. *Clinical Progress:*

     — In August 2020, the Company obtained NMPA approval for AK112 to advance to Phase Ib of clinical trial for advanced solid tumors in China.

  2. *Data Readouts:*

     — In November 2020, the periodic data of Phase Ia clinical research of AK112 was released at the 2020 China Immuno-Oncology Conference.

The table below sets forth details of our clinical development plan for AK112.

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
Advanced solid tumors	Phase Ib	Mono	October 2020	—	China
1L NSCLC/EGFR-TKI failure NSCLC	Phase II	Combo (with chemo)	1H 2021	—	China
1L ES-SCLC	Phase Ib	Combo (with chemo)	1H 2021	—	China
1L NSCLC	Phase II	Mono	1H 2021	—	China
Gynecological cancer	Phase II	Mono	1H 2021	—	China
Advanced solid tumors	Phase Ia/Ib	Mono	October 2019	—	Australia/China
Advanced solid tumors	Phase Ia	Combo (with AK117 (CD47))	In planning	—	China

Abbreviations: 1H = first half; 1L = first-line; EGFR-TKI = epidermal growth factor receptor tyrosine kinase inhibitors; ES = extensive stage; NSCLC = non-small cell lung cancer; SCLC = small cell lung cancer.

Note: (1) Denotes the date on which the first patient was or is expected to be enrolled.

- **CD47 monoclonal antibody (AK117)**: AK117 is a monoclonal antibody against CD47. We are evaluating this drug candidate for the treatment of cancer in combination with other therapies.

  We received an IND approval for AK117 in Australia in February 2020. Since our IPO, we have achieved the following progress or milestone(s):

  1. *Clinical Progress:*

     — In May 2020, the first patient was successfully dosed with AK117 in Australia. Currently, the clinical trial for dose escalation of AK117 for patients with advanced solid tumors and lymphomas is being carried out in Australia.

     — In September 2020, the Company obtained the IND approval from the NMPA for AK117 in China.

  2. *Data Readouts:*

     — In November 2020, the first in-human clinical study progress of AK117 was presented at SITC 2020.

The table below sets forth details of our clinical development plan for AK117.

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
Advanced solid tumors	Phase Ia	Combo (with AK104 (PD-1/CTLA-4))	1H 2021	—	Australia
Solid tumors/lymphoma	Phase Ia/Ib	Mono	1H 2021/In planning	—	Australia/China
MDS	Phase II	Combo (with azacitidine)	1H 2021	—	China
AML	Phase II	Combo (with azacitidine)	In planning	—	China
Advanced solid tumors	Phase Ia	Combo (with AK112 (PD-1/VEGF))	In planning	—	China

Abbreviations: 1H = first half; AML = acute myeloid leukemia; MDS = myelodysplastic syndrome.

Note: (1) Denotes the date on which the first patient was or is expected to be enrolled.

- **PD-1 monoclonal antibody (Penpulimab, AK105)**: Penpulimab is an innovative, potentially best-in-class humanized monoclonal antibody against PD-1 we developed in house, and is currently jointly developed and commercialized by the joint venture — CTTQ-Akeso (established by the Company and CTTQ).

  We have initiated an array of clinical studies for AK105 in Australia and China, including seven on-going registrational trials in China and a focus on combination trials with anlotinib. AK105 is differentiated from all of the currently marketed PD-1 antibodies with the key strengths including (1) differentiated structure design that (i) removes Fc-receptor-mediated effector function to increase anti-tumor activities and (ii) leads to slower off-rate and better receptor occupancy; (2) strong efficacy data and favorable safety profile observed in clinical trials. Since our IPO, we have achieved the following progress or milestone(s):

  1. *Clinical Progress:*

     — In May 2020, NMPA accepted the new drug application of Penpulimab (AK105) injection for the treatment of patients with classical Hodgkin's lymphoma that is relapsed or refractory (r/r) after at least two lines of systemic chemotherapy (r/r cHL).

     — In October 2020, the registrational clinical trial for third-line metastatic nasopharyngeal cancer with AK105 reached key endpoints.

     — In October 2020, the enrollment in Phase III clinical trial in combination with chemotherapy for first-line metastatic squamous non-small cell lung cancer with AK105 was completed.

     — In October 2020, AK105 obtained fast track designation from the FDA for third-line metastatic nasopharyngeal carcinoma.

     — The Company jointly initiated or is initiating multiple Phase II/III clinical trials of AK105 in combination with Anlotinib with CTTQ for various indications including:

       — Non-squamous non-small cell lung cancer (nsq-NSCLC);
       — Small cell lung cancer (SCLC);
       — Gastric cancer (GC);
       — Esophageal squamous cell carcinoma (ESCC);
       — Hepatocellular carcinoma (HCC);
       — Urothelial carcinoma (UC);
       — Head and neck cancer (HNC);
       — MSI-H or mismatch repair deficient (dMMR) solid tumor;
       — Neuroendocrine carcinoma, and etc.

  2. *Data Readouts:*

     — In November 2020, the Company presented the latest information regarding the study of AK105 for treatment of patients with relapsed or refractory classic Hodgkin's lymphoma and treatment of patients with metastatic nasopharyngeal carcinoma who had progressed after two or more lines of chemotherapy at SITC 2020.

The table below sets forth details of our clinical development plan for penpulimab (AK105).

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
3L R/R cHL	Phase II	Mono	January 2019	May 2020	China/NMPA
≥3L NPC	Pivotal	Mono	March 2019	2H 2021	China/NMPA
1L sq-NSCLC	Phase III	Combo (penpulimab (AK105)/placebo plus paclitaxel and carboplatin)	December 2018	2H 2021	China/NMPA
1L nsq-NSCLC (excluding EGFR mutation and ALK translocation)	Phase III	Combo (with pemetrexed and carboplatin)	July 2019	2022	China/NMPA
1L nsq-NSCLC (excluding EGFR mutation and ALK translocation)	Phase III	Combo (with Anlotinib)	January 2020	2022	China/NMPA
1L HCC	Phase III	Combo (with Anlotinib)	2H 2020	2H 2022	China/NMPA
2L GC	Phase III	Combo (with Anlotinib)	2H 2020	—	China/NMPA
dMMR	Phase II	Combo (with Anlotinib)	2H 2020	—	China/NMPA
NSCLC, SCLC, HNC, thyroid cancer, mesothelioma and thymic cancer	Phase II	Combo (with Anlotinib)	May 2020	—	China/NMPA
ESCC, urothelial carcinoma, GC or GEJ adenocarcinoma, cholangiocarcinoma, neuroendocrine tumor (NET)	Phase II	Combo (with Anlotinib)	May 2020	—	China/NMPA
1L NPC	Phase II	Combo (with chemo+/- Anlotinib)	2H 2020	—	China/NMPA

Abbreviations: 1H = first half; 2H = second half; 1L = first-line; 2L = second-line; 3L = third-line; cHL = classic Hodgkin's lymphoma; dMMR = mismatch repair deficient; ESCC = esophageal squamous cell carcinoma; GC = gastric cancer; GEJ = gastroesophageal junction; HCC = hepatocellular carcinoma; HNC = head and neck cancer; NPC = nasopharyngeal cancer; nsq-NSCLC = non-squamous non-small cell lung cancer; NSCLC = non-small cell lung cancer; R/R = relapsed or refractory; SCLC = small cell lung cancer; sq-NSCLC = squamous non-small cell lung cancer.

Note: (1) Denotes the date on which the first patient was or is expected to be enrolled.

- **CD73 monoclonal antibody (AK119)**: AK119 a monoclonal antibody against CD73 and is a full antagonist of CD73 activity. Complete blockade of CD73 activity by AK119 causes strong B cell activation and enhanced antibody production. Enhanced antibody production in COVID-19 patients may potentially augment their ability to destroy SARS-CoV-2 virus. We believe that AK119 can potentially be the effective treatment to be used for COVID-19 illness. AK119 may also result in more long-term immunity to SARS-CoV-2 virus, and potentially be used in conjunction with vaccination of healthy people to enhance the efficacy of vaccines. Since our IPO, we have achieved the following progress or milestone(s):

  Clinical Progress:

  — In October 2020, the first healthy subject was successfully dosed with AK119 in a clinical trial conducted in New Zealand.

The table below sets forth details of our clinical development plan for AK119.

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
COVID-19	Phase Ib	Mono	1H 2021	—	Global
Solid tumors	Phase Ia	Mono	1H 2021	—	Global
Solid tumors	Phase Ia	Combo (with AK104 (PD-1/CTLA-4))	1H 2021	—	Global

Abbreviations: 1H = first half; COVID-19 = Coronavirus Disease 2019.

Note: (1) Denotes the date on which the first patient was or is expected to be enrolled.

- **VEGFR-2 monoclonal antibody (AK109)**: AK109 is a fully human monoclonal IgG1 antibody against VEGFR-2. AK109 blocks VEGF binding to VEGFR-2, inhibiting VEGF mediated biological processes including angiogenesis. We are evaluating this drug candidate for the treatment of solid tumor.

  We have obtained the IND approval from the NMPA for AK109 and is conducting a Phase Ia/Ib dose escalation and extension trial in China. After the dose escalation and extension trial, we plan to conduct a series of clinical trials to evaluate AK109 in combination with either AK104 or AK105 for the treatment of different types of solid tumors, such as non-small cell lung cancer and liver cancer. Since our IPO, we have achieved the following progress or milestone(s):

  Clinical Progress:

  — In June 2020, the first patient with advanced solid tumor was enrolled and dosed in Phase I clinical trial of AK109 dose escalation.

The table below sets forth details of our clinical development plan for AK109.

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
Advanced solid tumors	Phase Ib	Mono	1H 2021	—	China
2L GC	Phase II	Combo (with AK104 (PD-1/CTLA-4))	1H 2021	—	China

Abbreviations: 1H = first half; GC = gastric cancer.

Note: (1) Denotes the date on which the first patient was or is expected to be enrolled.

Immunology and Other Therapeutic Areas

- **PCSK9 monoclonal antibody (Ebronucimab, AK102)**: AK102 is potentially the first domestically-developed PCSK9 monoclonal antibody to reach the market in China. We are evaluating AK102 for the treatment of hyperlipidemias, HoFH, HeFH and hypercholesterolemia. AK102 has the same target as Amgen's Repatha (evolocumab) and Sanofi/Regeneron's Praluent (alirocumab).

  We are enrolling the patients in Phase II clinical trials in China for Ebronucimab (AK102) to treat HoFH, HeFH, hypercholesterolemia patients with a very high or high risk of cardiovascular disease, respectively. Since our IPO, we have achieved the following progress or milestone(s):

  Clinical Progress:

  — In December 2020, we completed the enrollment of patients in Phase IIb clinical trial of AK102 for the treatment of patients with a high or very high risk of cardiovascular disease in China. The Company will launch Phase III clinical trial for the respective indications in China soon.

The table below sets forth details of our clinical development plan for AK102.

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
Hypercholesterolemia (for patients with very high/high cardiovascular risk)	Phase III	Ebronucimab (AK102)/ Placebo plus Statin and/or Ezetimibe	In planning	2022	China
HoFH	Phase II	Ebronucimab (AK102)/ Placebo plus Statin and Ezetimibe	May 2019	—	China
HeFH	Phase II	Ebronucimab (AK102)/ Placebo plus Statin and/or Ezetimibe	December 2019	—	China

Abbreviations: HeFH = heterozygous familial hypercholesterolemia; HoFH = homozygous familial hypercholesterolemia.

Note: (1) Denotes the date on which the first patient was or is expected to be enrolled.

- **IL-4R monoclonal antibody (AK120)**: AK120 is a monoclonal antibody against IL-4R and blocks the biological activities of cytokines IL-4 and IL-13.

  We are evaluating this drug candidate as a monotherapy for the treatment of atopic dermatitis and asthma, and received an IND approval for AK120 in Australia in February 2020. Since our IPO, we have achieved the following progress or milestone(s):

  Clinical Progress:

  — In June 2020, the first healthy subject was successfully dosed with AK120 in Phase Ia clinical trial in New Zealand.

  — In October 2020, the first patient was successfully enrolled in multi-dose escalation of AK120 in Phase Ib clinical trial in New Zealand and Australia for treatment of moderate-to-severe atopic dermatitis.

  — In December 2020, Phase Ib clinical trial of AK120 for treatment of moderate-to-severe atopic dermatitis in the United States was approved by the FDA.

The table below sets forth details of our clinical development plan for AK120.

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
Moderate-to-severe atopic dermatitis	Phase II	Mono	1H 2021	—	Global
Moderate-to-severe asthma	Phase II	Mono	In planning	—	China
Eosinophilic esophagitis	Phase II	Mono	In planning	—	Global

Abbreviations: 1H = first half.

Note: (1) Denotes the date on which the first patient was or is expected to be enrolled.

- **IL-12/IL-23 monoclonal antibody (AK101)**: AK101 is potentially the first domestically-developed monoclonal antibody against the validated second-generation autoimmune disease target IL-12/IL-23, which is superior in efficacy, safety and ease of use to the first-generation target, tumor necrosis factor (TNF-α). AK101 has the same target as Johnson & Johnson's Stelara (ustekinumab).

  We are currently conducting Phase IIb clinical trial of AK101 in moderate-to-severe psoriasis patients in China. Based on the current clinical development plan, we expect to initiate a Phase III trial for moderate-to-severe psoriasis in the second half of 2021. We have also received IND approval from the FDA for evaluating AK101 for the treatment of ulcerative colitis in the United States in October 2019. Since our IPO, we have achieved the following progress or milestone(s):

  Clinical Progress:

  — In May 2020, the IND application for the treatment of ulcerative colitis for AK101 was approved by the NMPA to initiate clinical trials in China, which marked the clinical trial approval granted to AK101 in addition to the previous one from the FDA to initiate clinical trials for the treatment of ulcerative colitis.

The table below sets forth details of our clinical development plan for AK101.

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
Moderate-to-severe psoriasis	Phase II	Mono	December 2019	2024	China/NMPA
Moderate-to-severe ulcerative colitis	Phase Ib	Mono	1H 2021	—	China

Abbreviations: 1H = first half.

Note: (1) Denotes the date on which the first patient was or is expected to be enrolled.

- **IL-17 monoclonal antibody (AK111)**: AK111 is a humanized IL-17 monoclonal antibody intended for the treatment of psoriasis, ankylosing spondylitis (AS) and axial spondyloarthritis (axSpA). AK111 has the same target as Novartis' Cosentyx (secukinumab).

  We have completed a Phase I clinical trial of AK111 in New Zealand and have obtained an IND approval for psoriasis in China. Since our IPO, we have achieved the following progress or milestone(s):

  Clinical Progress:

  — In June 2020, the first patient of moderate-to-severe psoriasis was successfully enrolled and dosed with AK111 in Phase Ib clinical trial in China.

The table below sets forth details of our clinical development plan for AK111.

Indication	Clinical trial stage	Type of therapy	(Expected) first patient in date[1]	Expected NDA submission date	Location and competent authority
Moderate-to-severe psoriasis	Phase II	Mono	1H 2021	—	China
Ankylosing spondylitis	Phase II	Mono	1H 2021	—	China

Abbreviations: 1H = first half.

Note: (1) Denotes the date on which the first patient was or is expected to be enrolled.

- **Warning under Rule 18A.08(3) of the Rules Governing the Listing of Securities on the Stock Exchange**: There is no assurance that AK104, AK112, AK117, AK105, AK 119, AK102, AK120, AK101, AK111 and AK109 will ultimately be successfully developed and marketed by the Company. As at the date of this annual report, no material adverse changes had occurred with respect to the regulatory approvals we had received in relation to our drug candidates.

Our Selected IND-enabling Drug Candidates

In addition to our clinical-stage drug candidates, as of December 31, 2020, we are also developing over four drug candidates in IND-enabling stage, including but not limited to:

Assets	Target(s)	Monotherapy/ Combo-therapy	Therapeutic Areas	Commercialization Rights
AK127	TIGIT	Monotherapy	Oncology	Global
AK131	PD-1/CD73	Monotherapy	Oncology	Global
AK130	TIGIT/TGFbeta	Monotherapy	Oncology	Global
AK129	PD-1/LAG3	Monotherapy	Oncology	Global

We meticulously evaluate these drug candidates' toxicity and pharmacological effects in a variety of pre-clinical studies using in vitro and in vivo laboratory animal testing techniques, and we actively explore their clinical development opportunities both in China and beyond.

Our Discovery Stage Candidates

In addition to our clinical-stage and IND-enabling stage drug candidates, we are also developing over ten discovery-stage drug candidates. Each of these candidates has been approved by our science committee, which reviews all proposals for research programs before they enter into discovery and development. Our drug discovery platform has allowed us to maintain and expand a strong discovery-stage drug pipeline in potentially important areas, such as oncology and immunology/inflammation. These are mostly novel targets with few or no available clinical data for proof of concept.

RESEARCH AND DEVELOPMENT

Our ACE Platform encompasses comprehensive modern biologic drug discovery and development capabilities and processes and allows us to operate with minimal dependence on external vendor services. These in-house capabilities are grouped in five main functions: (1) drug discovery; (2) process development; (3) pre-clinical development; (4) GMP-compliant manufacturing; and (5) clinical development.

Our ACE Platform incorporates our proprietary TETRABODY technology, expertise in crystallography and structure-based antibody design and engineering, superior in-house CMC capability, and adherence to global standard throughout the drug development process. These, combined with our fully integrated approach, have allowed us to consistently innovate and produce new drug candidates. We have built an efficient operating system for these individual functional platforms, laying a solid foundation for bringing our strong pipeline of innovative drugs from inception through development, manufacturing and commercialization.

MANUFACTURING FACILITIES

We develop and manufacture all drug candidates in-house, which gives us greater control over the production process of our drug candidates, thereby increasing our production efficiency, reducing costs, and allowing us to effectively manage our development processes and schedules.

From our inception, we have focused on establishing manufacturing facilities that are designed to meet rigorous international GMP standards. Our GMP-compliant manufacturing facilities are designed and validated according to the FDA, the EMA, and the NMPA regulations, and support the entire drug development process, from drug discovery to process development, GMP-compliant pilots and commercial manufacturing. We have manufactured nine clinical stage drug candidates for clinical trials. Our manufacturing facilities are comprised of the following sites:

- **GMP Pilot Plant**: Our GMP Pilot Plant currently houses our early-stage production with 50 L, 200 L and 250 L disposable bioreactors.

- **FDA/NMPA Compliant GMP Manufacturing Facility**: Our Zhongshan facility enables GMP-compliant manufacturing capacity of 3,500 L. The Zhongshan facility also features a 6,000 vial/hour (10 mL and 2 mL vials) fill/finish line.

- **Commercialization Manufacturing Base in Guangzhou**: This facility can house up to a total of 40,000 L manufacturing capacity to accommodate our future growth for drug supply. In the first phase, the facility house up to 20,000 L bioreactors and two fill/finish lines for vials and pre-filled syringes, respectively, with an anticipated annual production capacity of ten million dose units (vials and syringes). We expect this facility to also serve as our bio-analysis center with comprehensive quality control and micro-testing functions. A development laboratory with pilot plant will be established and enable late stage process development and full manufacturing support. Construction of the facilities has completed and operation commenced in early 2021.

- **Commercialization Manufacturing Base in Cuiheng, Zhongshan**: This facility will be built on a piece of land of 111,218 square meters and can house up to a total of 80,000 L manufacturing capacity to accommodate our future growth for drug supply. In the first phase, we plan to house up to 40,000 L bioreactors and two fill/finish lines for vials and pre-filled syringes, respectively, with an anticipated annual production capacity of twenty million dose units (vials and syringes). We expect this facility to also serve as our bio-analysis center with comprehensive quality control and micro-testing functions. Construction of the first phase of the facility has commenced in December 2020.

HUMAN RESOURCES MANAGEMENT

To fully support our continued growth, we continue to invest in attracting and retaining top talent, and expand our talent pool and enhance our capabilities in various aspects of our operations including but not limited to research and development, clinical development, and manufacturing.

The following table sets forth a breakdown of our employees by function as of December 31, 2020:

Function	Number of employees	% of total
Research and Development	160	21.5
Clinical	195	26.1
Manufacturing	233	31.3
Sourcing	13	1.7
Selling, General and Administrative	145	19.4
Total	746	100

KEY SENIOR APPOINTMENT

In July 2020, Dr. Xinfeng Zhang was appointed as senior vice president of the Company. Dr. Zhang has extensive experience in global biopharmaceutical CMC operation and he is responsible for CMC development and technology transfer for antibody drugs of the Company. Dr. Zhang has dedicated himself to CMC operation for years and has extensive experience and practical achievements in process and product development, technology transfer, process validation, industrialization declaration and launching, quality system, plant design, production and supply chain management of biologic drugs. The appointment of Dr. Zhang will enhance our CMC efforts and facilitate the technology transfer and will accelerate the development and global registration of our new drugs.

In July 2020, Dr. Michael (Chen) Chen was appointed as business development vice president of the Company. He is responsible for overseeing the global business development of the Company. Dr. Chen has extensive experience in global business development. Dr. Chen has dedicated himself to biopharmaceutical industry and global business development for years and has extensive experience and practical achievements in external innovation, pipeline cooperation and business development. The joining of Dr. Chen means the Company will further strengthen pipeline cooperation and business development and will speed up the process of commercialization, which will enhance the core competitiveness and global business layout of the Group.

In August 2020, Mr. Wenjun Shi was appointed as senior vice president of the business operation department of the Company. He is responsible for the commercial operation of the Company in China. Mr. Shi has extensive experience in pharmaceutical commercialization in China. Mr. Shi has dedicated himself to biopharmaceutical commercialization for years and has extensive theoretical and practical achievements in sales, medicine, marketing, governmental affairs, and business development. The joining of Mr. Shi will speed up the commercialization process of the Company's various products.

In October 2020, Dr. Jason Ni, who has extensive experience in global drug development, was appointed as the senior vice president of the medical department. He is responsible for the clinical non-oncology medical team, pharmacovigilance division, clinical quality division and other relevant work. Dr. Ni has extensive experience and expertise in various aspects, such as clinical development, pharmacovigilance and clinical quality. The appointment of Dr. Ni will enhance our capability in non-oncology pipeline drugs development and speed up the development and registration application of new drugs for non-oncology disease.

RECENT DEVELOPMENT AFTER THE REPORTING PERIOD

We continued to make significant progress in our drug pipeline and business operations after the Reporting Period, including the following major milestones and achievements. As of the date of this annual report, we have 5, 22 and 9 clinical programs in Phase Ia, Ib/II and pivotal/III studies, respectively. We have also increased the total number of ongoing registrational or pivotal trials to 10. Moreover, we have received 5 IND approvals in 2021.

1. Clinical Progress:

- In January 2021, latest results of phase Ib/II study of AK104 in the first-line treatment of advanced gastric cancer or adenocarcinoma of gastroesophageal junction in combination with chemotherapy published at the 2021 ASCO GI.
- In January 2021, successful dosing of the first patient with combination of AK104 and AK119 for treatment of advanced solid tumors in Phase I clinical trial.
- In January 2021, latest study of AK105 in combination with Anlotinib for first-line advanced HCC published at the 2021 ASCO GI.
- In February 2021, AK104 obtained orphan drug designation from the FDA for treating cervical cancer (except very early stage IA1).
- In February 2021, AK105 in combination with paclitaxel and carboplatin for first-line treatment of locally advanced or metastatic squamous non-small cell lung cancer has reached key research endpoints.
- In February 2021, the clinical trial application for IL-4R monoclonal antibody (AK120) was accepted by the NMPA.
- In February 2021, IL-17 monoclonal antibody (AK111) for treatment of axial spondylitis has obtained clinical trial approval from the NMPA.

2. Clinical Progress of our Business Development Partner:

- In March 2021, a combination therapy of CTLA-4 monoclonal antibody (AK107/MK-1308), an antibody we out-licensed to Merck, with Merck's PD-1 (Keytruda) has received clinical trial permission in China.

3. Others:

- In January 2021, the Company raised approximately HK$1.19 billion through a placing of new shares to further strengthen our financial position and expedite the development of corporate operation and various clinical programs.
- In February 2021, the Company completed GMP commissioning and process validation, and commenced GMP production of our Phase I commercialization manufacturing base in Guangzhou, with the manufacturing facilities housing up to 20,000 L disposable bioreactors.

For details, please refer to the corresponding announcements of the Company published on the website of the Stock Exchange.

IMPACT OF COVID-19 AND RESPONSE

Global Outbreak of COVID-19

It is expected that our clinical tests in China and overseas will not be significantly affected by the outbreak of COVID-19. Based on information available as of the date of this annual report, we believe that the outbreak of COVID-19 will not cause material interruption to our business operation and will not have significant impact on our financial conditions and financial results.

We are unable to predict if and when the COVID-19 will be suppressed. The above conclusion is based on the information about COVID-19 available for the time being. We cannot be sure if the COVID-19 will not worsen and if our operation results will not be materially and adversely affected.

FUTURE DEVELOPMENT

We will speed up the submission of new drugs for regulatory assessment and approval, the preparation for production and commercialization of drugs and the global development of our business. We will continue to push forward the clinical test of the existing and proposed pipeline products in China and overseas (including the United States) and the preparation for the commercialization of the pipeline products. We expect that the new drug application for Penpulimab (AK105, PD-1) for treatment of patients with classical Hodgkin's lymphoma that has relapsed or refractory after second or more systemic chemotherapy will be approved in 2021. In the first half of 2021, we expect to submit the new drug application for Penpulimab (AK105, PD-1) for third-line treatment of nasopharyngeal cancer. The new drug application for Penpulimab (AK105, PD-1) for first-line treatment of squamous non-small cell lung cancer will also be submitted in 2021. It is expected that the new drug application for Cadonilimab (AK104, PD-1/CTLA-4) for second- and third-line treatment of cervical cancer will be submitted in the second half of 2021. Further data readouts of other drugs in the pipeline, including Cadonilimab, AK112 (PD-1/VEGF), AK117 (CD47), AK105 (PD-1), AK119 (CD73), Ebronucimab (AK102, PCSK9), AK120 (IL-4R) and AK111 (IL-17), are expected in the next twelve months.

We have prepared for the roll-out of AK104 in 2022. We are actively identifying and recruiting sales and marketing executives for the establishment of our commercialization capability. We intend to establish an experienced and capable operation team comprising 500 members having knowledge of local markets by the end of 2021.

Furthermore, we will push forward our pre-clinical test preparation to discover, verify and select targets through our ACE Platform to enrich our product offering, in particular the products for cancer immunology and immunotherapy. It is expected that one or two drug candidates will commence clinical test in 2021.

To speed up the commercialization process and to maximize the commercial value of drugs, we will identify strategic partners in China and overseas with high value-added potential to cooperate in business development, joint venture and licensing arrangement.

We anticipate that the demand of our drug candidates will increase and intend to expand our GMP production capacity in accordance with the requirements of the United States, China, Japan and European Union. The establishment of the new manufacturing facilities in Guangzhou will complete in early 2021 for operation. The facilities will initially accommodate bioreactors of total capacity as high as 20,000 L. The construction of our technology centre in Kangfang Bay of Cuiheng New District in Zhongshan has commenced. According to our initial plan, the new manufacturing facilities will have additional production capacity of 40,000 L.

We are pleased to witness the rapid development of the Company and have proposed detailed development plan for the future. It is our mission and vision to become a global biopharmaceutical company dedicated to the development, production and commercialization of innovative antibody drugs that are affordable to patients worldwide.

FINANCIAL REVIEW

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

	Year Ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Revenue	**—**	70,879
Other income and gains, net	**123,524**	50,186
Research and development expenses	**(768,589)**	(308,388)
Administrative expenses	**(253,029)**	(55,421)
Other expenses, net	**(2,077)**	(592)
Fair value changes on convertible redeemable preferred shares	**(412,421)**	(97,382)
Finance costs	**(7,987)**	(5,736)
Loss for the year	**(1,320,579)**	(346,454)
Other comprehensive loss		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**70,613**	6,128
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Translation from functional currency to presentation currency	**(302,550)**	(8,195)
Other comprehensive loss for the year, net of tax	**(231,937)**	(2,067)
Total comprehensive loss for the year	**(1,552,516)**	(348,521)
Non-IFRS Measures		
Adjusted total comprehensive loss for the year	**(747,452)**	(238,211)

1. Revenue

For the year ended December 31, 2019, the Group recorded revenue of RMB70.9 million in connection with receipt of milestone payment related to AK107, namely the CTLA-4 antibody (Quavonlimab, MK1308) we out-licensed to Merck, which did not occur in 2020.

2. Other Income and Gains, net

The Group's other income and gains primarily consisted of government grants, bank and other interest income, foreign exchange differences, net and net changes in fair value of financial assets at fair value through profit or loss. The government grants consist of (i) subsidies from local government for compensation on expenditure arising from research and development activities; and (ii) awards for new drug development and capital expenditure incurred on certain projects including construction of manufacturing facilities.

For the year ended December 31, 2020, the other income and gains, net of the Group increased by RMB73.3 million from RMB50.2 million for the year ended December 31, 2019 to RMB123.5 million. The increase was primarily attributable to interests earned on the proceeds from the Company's IPO on the Stock Exchange and the increase in subsidies from the local government for research and development activities.

3. Research and Development Expenses

The Group's research and development expenses primarily consisted of: (i) the costs of clinical trials for our drug candidates including third-party contracting costs with the engagement of CROs, clinical trial sites and other service providers in connection with clinical trials; (ii) employee salaries and related benefit costs in connection with our research and development activities; (iii) third-party contracting costs relating to testing expenses for pre-clinical programs; and (iv) costs associated with purchasing raw materials for research and development of our drug candidates.

For the year ended December 31, 2020, the research and development expenses of the Group increased by RMB460.2 million, or 149.2%, to RMB768.6 million from RMB308.4 million for the year ended December 31, 2019. The increase was primarily attributable to (i) clinical trial advancement of our late stage drug candidates and the increased expenses incurred for additional clinical trials as more drug candidates progressed into clinical trial stage in 2020; and (ii) increase in employee salaries and related benefit costs, and increase in headcount of research and development personnel.

The following table sets forth the components of the Group's research and development expenses for the years indicated:

	Year Ended December 31,	
	2020	2019
	RMB'000	RMB'000
Clinical trial costs	**580,438**	196,443
Salaries and benefits	**129,579**	43,722
Testing expenses	**24,050**	30,850
Raw material costs	**7,140**	18,152
Depreciation and amortization	**13,129**	10,514
Others	**14,253**	8,707
	768,589	308,388

4. Administrative Expenses

Administrative expenses primarily consisted of (i) listing expense; (ii) employee salaries and benefits; (iii) depreciation and amortization expenses; and (iv) professional fees. Other administrative expenses include travel expenditures and other expenses in connection with administration activities.

For the year ended December 31, 2020, the administrative expenses of the Group increased by RMB197.6 million to RMB253.0 million from RMB55.4 million for the year ended December 31, 2019, which was primarily attributable to (i) the increase in listing expenses in connection with the IPO; and (ii) the increase in employee salaries and benefits mainly caused by equity-settled share award expense and increase in headcount of non-research and development personnel.

5. Fair Value Changes on Convertible Redeemable Preferred Shares

For the year ended December 31, 2020, the Group recorded fair value loss on convertible redeemable preferred shares of RMB412.4 million, representing an increase of RMB315.0 million from RMB97.4 million for the year ended December 31, 2019 as the fair value of the convertible redeemable preferred shares was deemed to be increased upon the completion of the IPO of the Company. Such loss on the fair value changes of convertible redeemable preferred shares was non-cash and non-recurring, as all of the Company's preferred shares were converted to ordinary shares upon the Listing Date, the Group will not incur any additional losses related to the fair value changes of preferred shares on going forward.

6. Finance Costs

Finance costs consisted of finance cost on lease liabilities and interest expense on bank and other borrowings net of capitalized interest related to construction in progress.

For the year ended December 31, 2020, the finance costs of the Group increased by RMB2.3 million to RMB8.0 million from RMB5.7 million for the year ended December 31, 2019, which was primarily attributable to an increase in interest incurred from bank and other borrowings.

7. Loss for the Year

For the reasons described above, loss for the year of the Group increased by RMB974.1 million from RMB346.5 million for the year ended December 31, 2019 to RMB1,320.6 million for the year ended December 31, 2020.

8. Non-IFRS Measure

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

Adjusted total comprehensive loss for the year represents the total comprehensive loss for the year excluding the effect of equity-settled share award expenses, listing expenses and certain non-cash items and non-recurring events, namely fair value changes on convertible redeemable preferred shares. The term adjusted total comprehensive loss for the year is not defined under the IFRS. However, the Company believes that this and other non-IFRS measures are the reflections of the Group's normal operating results by eliminating potential impacts of items that the management do not consider to be indicative of the Group's operating performance. The adjusted total comprehensive loss for the year, as the management of the Group believes, is accepted and adopted in the industry which the Group is operating in. However, the presentation of the adjusted total comprehensive loss for the year are not intended to be (and should not be) considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. Shareholders and potential investors of the Company should not view the non-IFRS measures (i.e. the adjusted total comprehensive loss for the year) on a stand-alone basis or as a substitute for results under the IFRS, or as being comparable to results reported or forecasted by other companies.

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Total comprehensive loss for the year	**(1,552,516)**	(348,521)
Added:		
Fair value changes on convertible redeemable preferred shares	**412,421**	97,382
Equity-settled share award expenses	**347,151**	—
Listing expenses	**45,492**	12,928
Adjusted total comprehensive loss for the year	**(747,452)**	(238,211)

Selected Data from Consolidated Statement of Financial Position

	As at December 31, 2020 *RMB'000*	2019 *RMB'000*
Total current assets	**3,001,326**	1,255,964
Total non-current assets	**854,843**	416,975
Total Assets	**3,856,169**	1,672,939
Total current liabilities	**169,971**	119,761
Total non-current liabilities	**235,759**	1,337,473
Total liabilities	**405,730**	1,457,234
Net current assets	**2,831,355**	1,136,203

9. Liquidity and Source of Funding and Borrowing

As at December 31, 2020, the Group's cash and cash equivalents increased by RMB1,498.5 million to RMB2,684.5 million from RMB1,186.0 million as at December 31, 2019. The increase primarily resulted from the proceeds from the IPO.

As at December 31, 2020, the current assets of the Group were RMB3,001.3 million, including cash and cash equivalents of RMB2,684.5 million, financial assets at fair value through profit or loss of RMB110.0 million and other current assets of RMB206.8 million.

As at December 31, 2020, the current liabilities of the Group were RMB170.0 million, including trade payables of RMB112.6 million, other payables and accruals of RMB39.6 million, bank and other borrowings of RMB13.8 million and other current liabilities of RMB4.0 million.

As at December 31, 2020, the Group had available unutilized bank loan facilities of approximately RMB362.5 million, as compared to RMB26.8 million as at December 31, 2019.

As at December 31, 2020, the Group had short term loans of approximately RMB13.8 million (as at December 31, 2019: approximately RMB38.1 million) and had long term loans of approximately RMB178.6 million (as at December 31, 2019: approximately RMB173.3 million).

Such borrowings bear interest at fixed annual interest rates ranging from 5.23% to 6.5%. There was no material influence of seasonality on the Group's borrowing needs.

Currently, the Group follows a set of funding and treasury policies to manage its capital resources and mitigate potential risks involved.

10. Pledge of Assets

As at December 31, 2020, the Group had total RMB156.6 million of buildings and land use right pledged to secure its loans and banking facilities and RMB2.0 million of time deposits pledged as security for the procurement for the machinery and equipment and the execution of the land use right contract.

11. Key Financial Ratios

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

	As at December 31, 2020 *RMB'000*	2019 *RMB'000*
Quick ratio[1]	**17.3**	10.4
Gearing ratio[2]	**Not Meaningful[2]**	Not Meaningful[2]

Notes:

(1) Quick ratio is calculated by dividing current assets less inventories as of a given date by current liabilities as of such date.

(2) Gearing ratio is calculated using interest-bearing bank and other borrowings less cash and cash equivalents divided by total equity and multiplied by 100%. Gearing ratio is not meaningful as our interest-bearing bank and other borrowings less cash and cash equivalents was negative.

12. Significant Investments

As at December 31, 2020, the Group did not hold any significant investments. Save as disclosed in this annual report, the Group did not have other plans for significant investments or capital assets as of the date of this annual report.

13. Material Acquisitions and Disposals

The Group did not have material acquisitions or disposals of subsidiaries, associates and joint ventures for the year ended December 31, 2020.

14. Contingent Liabilities

Save as disclosed in Note 30 to the financial statements, the Group did not have any material contingent liabilities as at December 31, 2020.

15. Capital Commitment

The capital commitments of the Group as at December 31, 2020 were RMB478.9 million, representing an increase of RMB210.8 million as compared with that of RMB268.1 million as at December 31, 2019, primarily attributable to progress made in the construction of manufacturing facilities.

16. Foreign Exchange Exposure

During the year ended December 31, 2020, the Group mainly operated in China and a majority of its transactions were settled in Renminbi, the functional currency of the Company's primary subsidiaries. As at December 31, 2020, a significant amount of the Group's cash and cash equivalents was denominated in Hong Kong dollars. Except for certain cash and cash equivalents, trade and other payables denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations as at December 31, 2020. Our Group currently does not have a foreign currency hedging policy. However, we manage foreign exchange risk by performing regular reviews of our net foreign exchange exposures and seeks to minimize these exposures whenever possible.

17. Employees and Remuneration

As at December 31, 2020, the Group had a total of 746 employees. The following table sets forth the total number of employees by function as of December 31, 2020:

Function	Number of employees	% of total
Research and Development	160	21.5
Clinical	195	26.1
Manufacturing	233	31.3
Sourcing	13	1.7
Selling, General and Administrative	145	19.4
Total	746	100

The total remuneration cost incurred by the Group for the year ended December 31, 2020 was RMB469.8 million, as compared to RMB57.4 million for the year ended December 31, 2019. The increase was primarily attributable to (i) equity-settled share award expenses of RMB347.2 million; and (ii) an increase of RMB65.2 million in employee salaries and benefits in line with the expansion in headcount.

The remuneration of the employees of the Group comprises salaries, bonuses, employees provident fund and social security contributions, other welfare payments and equity-settled share award expenses. In accordance with applicable Chinese laws, the Group has made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for the Group's employees.

The Company has also adopted the RSU Scheme on August 29, 2019. For details, please refer to the paragraph headed "D. Share Incentive Schemes — 1. Restricted Share Unit Scheme" in Appendix IV to the Prospectus.

USE OF NET PROCEEDS

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date. The Group received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the IPO and the exercise of over-allotment option of approximately HK$2,894.1 million (equivalent to approximately RMB2,647.2 million).

The table below sets forth the utilization of the net proceeds from the Global Offering and the unused amount as at December 31, 2020:

	% of total proceeds	Allocation of net proceeds from the global offering in the proportion disclosed in the Prospectus *HK$' million*	Utilization of net proceeds during the period from the Listing Date to December 31, 2020 *HK$' million*	Proceeds unutilized as at December 31, 2020 *HK$' million*
Research and development and commercialization of products	75%	2,170.6	140.4	2,030.2
Development of the manufacturing and research and development facilities in Guangzhou and Zhongshan, China	15%	434.1	104.2	329.9
General corporate and working capital purposes	10%	289.4	27.0	262.4
Total		2,894.1	271.6	2,622.5

The remaining balance of the net proceeds (approximately HK$2,622.5 million) have been deposited in banks. The Group expects that the remaining net proceeds shall be utilized gradually in accordance to the actual business needs and in the manner stated in the Prospectus, and they shall be fully utilized within 2 years (by December 31, 2022). This expected timeline is based on the best estimation of future market conditions and business operations made by the Company, and may be subject to change based on current and future development of market conditions and actual business needs.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee had reviewed together with the management the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended December 31, 2020.

The Board consists of four executive Directors, two non-executive Directors and three independent non-executive Directors.

DIRECTORS

Executive Directors

Dr. XIA Yu (夏瑜), the key founder of our Group, aged 54, has been the chairwoman, president and CEO of our Group since its inception on March 19, 2012, and she was re-designated as the executive Director and appointed as the chairwoman, president and CEO of our Company on November 16, 2019. In these roles, Dr. XIA has been mainly responsible for the overall strategic and operational management of the Company. Dr. XIA also holds the following positions with the other members of our Group and has been primarily responsible for these companies' decision-making:

- director, president, CEO and chairwoman of Akeso Biopharma (since March 2012);
- director of Akeso Tiancheng (since May 2016);
- director and general manager of Akeso R&D Institute (since July 2016);
- director and general manager of AD Pharma (since February 2017);
- director, general manager (since August 2017) and chairwoman (since November 2018) of Akeso Pharma;
- executive director and general manager of AD Pharma Guangzhou (since March 2018);
- chairwoman and general manager of Zhong Kang Tai He (since September 2018); and
- general manager of CTTQ-Akeso (since August 2019).

Dr. XIA has over 27 years of experience in the pharmaceutical industry and academic research. Prior to founding our Group, Dr. XIA held senior leadership roles (with a position as senior vice president) from April 2008 to March 2012 at Crown Bioscience Inc., where she played a decisive role in constructing Crown Bioscience's platform, building its team, setting and implementing its strategies, and forging its joint venture with Pfizer (the Pfizer-Crown Asian Cancer Research Centre). From July 2006 to March 2008, Dr. XIA served as a senior scientist and group leader at PDL BioPharma, Inc. (later acquired by AbbVie). From January 2006 to June 2006, Dr. XIA served as a senior process development scientist at Bayer Corporation in the U.S.. At both PDL BioPharma and Bayer, Dr. Xia oversaw CMC, process development and manufacturing of therapeutic protein and antibody drugs. Dr. XIA began her pharmaceutical career at Axys Pharmaceuticals, Inc. (later acquired by Celera Genomics), where she held both scientific and managerial roles in drug discovery programs from December 2000 to December 2005, overseeing a broad range of activities from target validation through IND-enabling studies.

Dr. XIA received her bachelor's degree in biochemistry from Sun Yat-sen University (中山大學) in the PRC in 1988. She earned her Ph.D. degree in molecular biology and microbiology from Newcastle University in the U.K. in 1994. Dr. XIA completed her postdoctoral research training at the University of Glasgow in the U.K. from 1993 to 1996, and she also conducted the cancer immune therapy research at the University of Louisville School of Medicine in the U.S from 1996 to 2000. Dr. XIA has published numerous articles in peer-reviewed journals. Dr. XIA is also the grantee of 16 issued patents and pending patent applications.

Over the years, Dr. XIA has served important roles in numerous influential organizations, including a member of the Special Committee for Monoclonal Antibody of the China Medicinal Biotech Association, a committee member of the Special Committee for Science and Technology Innovation of China Overseas Returnee Entrepreneur Investment Association, an advisory committee member of the Chinese Antibody Society, and a director of Tongxieyi Antibody Talent Club. Dr. XIA has also received numerous awards and recognitions for her contributions to both the pharmaceutical industry and commercial enterprises, such as "The Seventh National Overseas Returnee Contributions Award" in June 2018, and the Innovative and Entrepreneurial Talent awarded by the Ministry of Science and Technology of the PRC in March 2014. In July 2015, Dr. XIA and her team were awarded the "Top Chinese Overseas Returnee Star-up Company" by the Overseas Chinese Affairs Office of the State Council, and Dr. XIA was also recognized for her role as the team leader of selected innovation and entrepreneurial team winners of the Pearl River Talents Scheme of Guangdong Province in April 2018.

Mr. XIA Yu (Ph.D.) (夏羽) is the brother of Dr. XIA (夏瑜).

Dr. LI Baiyong (李百勇), a co-founder of our Group, aged 52, has been vice president and chief scientific officer of our Group since its inception in March 2012 and he was re-designated as an executive Director and was appointed as the senior vice president and chief scientific officer of our Company on November 16, 2019. Dr. Li has been mainly responsible for leading scientific direction, drug discovery and development, and participating in overall strategic planning and business direction. Dr. Li has over 21 years of experience in the therapeutics biologics industry. Dr. Li also holds the following positions with other members of our Group:

- director (since March 2012), vice president and the chief scientific officer (since April 2012) of Akeso Biopharma;
- director, the vice president and the chief scientific officer of AD Pharma (since February 2017);
- director and deputy general manager of Akeso Pharma (since November 2018); and
- director of Zhong Kang Tai He (since September 2018).

Prior to the establishment of our Group, Dr. Li worked at Pfizer Inc in the US from 1999 to late 2011, where he led drug discovery work on a series of cancer immune therapy new drug projects. His last position at Pfizer was associate director, focusing on oncology research and leading a series of key innovative immuno-oncology therapy projects.

Prior to joining Pfizer, Dr. Li was a post-doctoral research fellow with Dr. Richard Flavell, a world-renowned immunologist, the department head of the Immunology department at Yale University and a member of the US National Academy of Science, with the focus of his studies in the field of T cell immunology.

Dr. Li obtained his bachelor's degree in biochemistry from Nankai University (南開大學) in the PRC, in 1991. He subsequently obtained his Ph.D. degree in molecular and cell biology from the Pennsylvania State University in the U.S. in 1996.

Dr. Li was recognized as a Level 5 talent of the Shortage of High Level Talents of Zhongshan (中山市第五層次緊缺適用高層次人才) in December 2014, and was selected in the Pearl River Talents Scheme (珠江人才計劃) in April 2017. In May 2019, Dr. Li was an awardee in the Zhongshan Top Talents Programme (中山市拔尖人才).

Dr. WANG Zhongmin Maxwell (王忠民), a co-founder of our Group, aged 52, has been vice president of our Group since its inception in March 2012 and he was re-designated as an executive Director and was appointed as the senior vice president of our Company on November 16, 2019. Dr. Wang has been mainly responsible for clinical operations, sourcing and legal affairs. Dr. Wang has served as a director of Akeso Biopharma since March 2012, a vice president of AD Pharma since February 2017, and a director of Akeso Pharma since November 2018.

Prior to the establishment of our Group, Dr. Wang had extensive experience for over 20 years in the therapeutics biologics industry. He served as the senior research scientist from June 2002 and as a consultant starting from January 2006 at New Century Pharmaceuticals Inc. in the U.S., and was responsible for advising on structure determination and modelling of drug targets. Dr. Wang joined Trimeris Inc. as a senior consultant in February 2006 and later, he also served an executive consultant at Ardea Biosciences Inc. from February 2007 to October 2008, mainly responsible for structure based drug development with Kinases. After returning to China, he joined Crown Bioscience Inc. (中美冠科生物技術有限公司) in January 2009 as senior director, and was responsible for the management of the structural biology group and for the business development of protein science department. From January 2011 to May 2012, Dr. Wang served as the deputy general manager of Taicang CrownBio Analytical and Testing Company Limited (中美冠科生物技術(太倉)有限公司).

Dr. Wang obtained his bachelor's degree in physics from University of Science and Technology of China (中國科學技術大學), China in July 1991. He subsequently pursued his master's degree in physics at Northeastern University in the U.S. Dr. Wang obtained his Ph. D. degree in structural & computational biology and molecular biophysics from Baylor College of Medicine in the U.S., in May 1998. He had published eight scientific papers in international peer-reviewed journals and is the inventor of five patents during his stay in the U.S.

Dr. Wang was recipient of the Pearl River Talents Scheme (珠江人才計劃) in April 2017. He has also been recognized as a Level 3 talent of Shortage of High Level Talents of Zhongshan (中山市第三層次緊缺適用高層次人才) in December 2017. In May 2019, Dr. Wang was an awardee in the Zhongshan Top Talents Program (中山市拔尖人才).

Mr. XIA Yu (Ph.D.) (夏羽), aged 50, has been a Director since November 1, 2019. Mr. Xia (Ph. D.) was re-designated as an executive Director and was appointed as the senior vice president of our Company on November 16, 2019, and is mainly responsible for manufacturing, quality and regulatory affairs. Mr. Xia (Ph.D.) joined our Group in May 2017 where he served as the vice president, and the head of the quality department of both Akeso Biopharma and AD Pharma. He has also served as the deputy general manager and the head of the production team of Akeso Pharma since November 2018.

Prior to joining our Group, Mr. Xia (Ph.D.) primarily focused on the pharmaceutical and biopharmaceutical sector in Canada and U.S. Mr. Xia (Ph.D.) joined Cardiome Pharma Corp. in October 2005 as a manager and led its analytical development department, where he focused specifically in the development of drug substances and drug products, regulatory submissions and regulatory inspections. Since March 2011, Mr. Xia (Ph.D.) joined APOTEX Inc. as the associate director until December 2013, where he led the product development department. He was responsible for drug product development and worldwide drug marketing applications. From January 2014 to August 2016, Mr. Xia (Ph.D.) served as the global quality director at Albany Molecular Research Inc. and was responsible for its product development and quality system across multiple sites, as well as the handling of regulatory inspections from the FDA.

Mr. Xia (Ph.D.) obtained his bachelor's degree in applied chemistry from Peking University (北京大學) in July 1992, he subsequently obtained a Ph.D. degree in chemistry from the University of Wales in the United Kingdom, in January 2001.

Mr. Xia (Ph.D.) has published and contributed to four scientific publications. Mr. Xia (Ph.D.) is an awardee of the Pearl River Talents Scheme (珠江人才計劃) in April 2017, and has been recognized as a Level 3 talent of the Shortage of High Level Talents of Zhongshan (中山市第三層次緊缺適用高層次人才) in December 2017.

Dr. XIA (夏瑜) is the sister of Mr. XIA Yu (Ph.D.) (夏羽).

Non-executive Directors

Dr. ZHOU Yi (周伊), aged 40, has been a Director since November 1, 2019. Dr. Zhou was re-designated as a non-executive Director on November 16, 2019. Dr. Zhou joined our Group as a director of Akeso Biopharma since July 2015 until November 2019.

Dr. Zhou was an analyst in pharmaceutical industry at Shenzhen Capital Group Co., Ltd from May 2012 to September 2017. Since October 2017, Dr. Zhou has served as the general manager of health industry fund in Shenzhen Capital Group Co., Ltd.

Dr. Zhou obtained a bachelor's degree in chemistry from Hengyang Normal University in June 2006, a master's degree in organic chemistry from Hunan Normal University in June 2007, and further received a Ph.D. degree in medicinal chemistry from Peking University in July 2011.

Mr. XIE Ronggang (謝榕剛), aged 36, was appointed as a non-executive Director from August 19, 2020. Mr. Xie has around 11 years of investment experience. He obtained a bachelor's degree and a master's degree in biomedical engineering from Southeast University, the PRC in 2008 and 2011, respectively. Mr. Xie worked at Oriza Holdings from April 2011 to October 2015 and has been the managing director of Loyal Valley Capital since 2018.

Independent Non-executive Directors

Dr. ZENG Junwen (曾駿文), aged 59, an independent non-executive Director, is responsible for supervising and providing independent advice and judgment to our Board.

Dr. Zeng has over 21 years' experience in ophthalmic industry. From September 1984 to June 1986, Dr. Zeng was a resident physician at the Zhongshan Ophthalmic Center (the "**Zhongshan Ophthalmic Center**") of the Sun Yat-sen University (中山大學). He was appointed as adjunct assistant professor of ophthalmology and visual sciences at the University of Louisville between July 1998 and June 2001. Dr. Zeng returned to Zhongshan Ophthalmic Center in March 1998 as the director of technology development and the assistant to the head of Zhongshan Ophthalmic Center, then served as the deputy head and deputy supervisor of Zhongshan Ophthalmic Center from January 1999 until February 2002. From March 2002 to February 2012, he was the head of the optometry center at the same institution. From February 2012 to November 2017, Dr. Zeng also served as the head of ophthalmology department and optometry department of the Zhongshan Ophthalmic Center. Since November 2017, Dr. Zeng has been working as the head of refractive department of the Zhongshan Ophthalmic Center.

Dr. Zeng obtained his bachelor's degree in clinical medicine in August 1984 from Sun Yat-sen University School of Medicine. He received his Ph.D. degree in Biochemistry in May 1993 from Meharry Medical College in Nashville, the U.S. Dr. Zeng is currently licensed to practice medicine in the PRC. Dr. Zeng has served as an independent director of Doctorglass Chain Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300622), since January 2018.

Dr. XU Yan (徐岩), aged 57, an independent non-executive Director, is responsible for providing independent advice and judgment to our Board. Dr. Xu's experience prior to joining our group is set forth below.

Between 1987 and 1992, Dr. Xu worked as a lecturer at the Department of Management in the Beijing University of Post and Telecommunications. From September 1997 to June 2004, he first worked as a visiting assistant professor, and beginning in September 1999, as an assistant professor of information and systems management in the Department of Information and Systems Management at the Hong Kong University of Science and Technology ("**HKUST**"). Dr. Xu served as an associate professor from July 2004, and from July 2019 onwards served as a professor in the Department of Information Systems, Business Statistics and Operations Management, School of Business and Management of HKUST. Since 2011, he has also served as the associate dean of the EMBA Program for Chinese executives, executive education and China strategy in the School of Business and Management at HKUST.

Dr. Xu obtained his bachelor's degree in radio communications engineering and master's degree in communications and electronic system from the Beijing University of Post and Telecommunications, PRC in July 1984 and July 1987 respectively. He further received his Ph.D. degree in telecommunications policy from University of Strathclyde, UK in July 1997.

Dr. Xu has served as the independent non-executive director of China Display Optoelectronics Technology Holdings Limited, a company listed on the Stock Exchange (stock code: 00334), since June 2015.

Mr. TAN Bo, aged 47, is an independent non-executive Director with effect from the Listing Date. He is responsible for supervising and providing independent advice and judgment to our Board.

Mr. Tan has extensive experience within the financial and pharmaceutical industries, and has worked in private equity, equity research and commercial sectors. He worked as a senior analyst at Macquarie Securities Asia in Hong Kong from October 2004 to February 2006. From March 2006 to March 2007, he served as a vice president in the equity research division of Lehman Brothers Asia Limited. From April 2007 to September 2008, he served as an executive director and a member of the investment committee of Bohai Industrial Investment Fund Management Company, a private equity fund in China. From 2009 to December 2019, Mr. Tan worked at 3SBio Inc., a company listed on the Stock Exchange (stock code: 1530), and served as its vice president, chief financial officer, and executive director.

Mr. Tan has served as an independent non-executive director of Globe Metals & Mining (a company listed on the Australian Securities Exchange with security code of GBE) since October 9, 2013.

Mr. Tan obtained a bachelor's degree in economics from Renmin University of China in July 1994, a master's degree in economics from the University of Connecticut in December 1996 and a master of International Management from American Graduate School of International Management in August 1998.

SENIOR MANAGEMENT

Dr. XIA Yu (夏瑜) is the president and chief executive officer of our Company. Please refer to the paragraph headed "— Directors — Executive Directors" above for her biographical details.

Dr. LI Baiyong (李百勇), is the senior vice president and chief scientific officer of our Company. Please refer to the paragraph headed "— Directors — Executive Directors" above for his biographical details.

Dr. WANG Zhongmin Maxwell (王忠民), is the senior vice president of our Company. Please refer to the paragraph headed "— Directors — Executive Directors" above for his biographical details.

Mr. XIA Yu (Ph.D.) (夏羽), the senior vice president of our Company. Please refer to the paragraph headed "— Directors — Executive Directors" above for his biographical details.

Mr. XI Xiaojie (席曉捷), aged 45, is the chief financial officer of our Company and one of our joint company secretaries. Mr. Xi has also been the chief financial officer of Akeso Biopharma since November, 2018. Mr. Xi is primarily responsible for overseeing the overall financial management, financial matters and strategic development of the Group. Mr. Xi brings over 15 years of financial industry experience in the U.S. and China, including investment banking and private equity investment with many public and private companies.

Prior to joining us, he was a director at SIN Capital (HK) Limited, focusing on investments in healthcare industry in China, and was an investment banker at Credit Suisse, Morgan Stanley and CLSA securities executing high profile transactions, including IPOs, debt and equity financings and M&As for leading companies in China.

Mr. Xi earned his MBA degree with distinction from New York University, Stern School of Business in 2008. He obtained his Master of Science degree from Rutgers, The State University of New Jersey in 2002, with major in biochemistry and computer science, and his bachelor's degree in biochemistry from Wuhan University in 1997.

Dr. ZHANG Peng (張鵬), a co-founder of our Group, aged 44, has been vice president of our Group since April 2012 and he was appointed as the vice president of our Company on November 16, 2019. Dr. Zhang is mainly responsible for corporate operations and government affairs of the Group. Dr. Zhang has served as a vice president of Akeso Biopharma since early 2012. He has been appointed as a director of AD Pharma since February 2017, and a director of Akeso Pharma since November 2018. Dr. Zhang has approximately 19 years of experiences in the therapeutic biologics industry.

Prior to commencing his career in our Group, Dr. Zhang served as a teaching assistant in the Chemistry department of the University of Louisville in the U.S. from August 2001 to July 2002. From August 2002 to February 2007, he served as a teaching assistant in the Chemistry department of the University of Kentucky. Dr. Zhang served as a scientist in PDL BioPharma, Inc, from February 2007 to May 2008 and then as a senior director of the protein chemical department of Crown Bioscience Inc. from September 2008 to April 2012. In addition, since June 2010, he also served as the senior director and deputy general manager of Taicang CrownBio Analysis and Testing Company, Limited (中美冠科生物技術(太倉)有限公司), where he was primarily responsible for general management, business development and project management.

Dr. Zhang obtained his bachelor's degree in chemistry and master's degree in analytical chemistry from the University of Shandong (山東大學) in the PRC in July 1998 and June 2001 respectively. Dr. Zhang subsequently obtained his Ph.D in chemistry from the University of Kentucky in the U.S. in May 2007. He has also published a scientific paper in the Chinese Medicinal Biotechnology Journal.

Dr. Zhang has been recognized as a Level 6 talent of the Shortage of High Level Talents of Zhongshan (中山市第六層次緊缺適用高層次人才) in December 2014, and was selected in the Pearl River Talents Scheme (珠江人才計劃) in April 2018. Dr. Zhang also became the first director of the Zhongshan New Social Status Class Association (中山新社會階層人士聯合會) in July 2018.

Dr. JIN Xiaoping (金小平), aged 44, was appointed as the vice president of our Group on November 16, 2019. Dr. Jin is mainly responsible for clinical science and development. Dr. Jin joined our Group in May 2017 and has served as the vice president and head of clinical development of Akeso Biopharma and AD Pharma since then.

Prior to joining our Group, Dr. Jin first served as the biostatistician of a pharmaceutical company Daiichi Sankyo Inc. (第一三共株式會社) and participated in the clinical studies of new oncological medicine indications from July 2005 to June 2014. He then served as the scientific director of pharmaceutical company AstraZeneca Plc from June 2014 to April 2017, and was responsible for setting clinical study strategies to identify indications, designing clinical study plans, managing clinical studies, analysing relevant data and drafting clinical study reports.

Dr. Jin obtained his bachelor's degree in chemistry from the University of Nanjing (南京大學) in the PRC, in July 1997. He subsequently obtained his master's degree in statistics from the Washington State University in the U.S. in August 2001. He further obtained his Ph.D. degree in biostatistics from the University of Minnesota in the U.S., in June 2005. He has published 16 scientific papers in international peer-reviewed journals. Dr. Jin is selected in the Pearl River Talents Scheme (珠江人才計劃) in April 2018.

JOINT COMPANY SECRETARY

Mr. XI Xiaojie (席曉捷), aged 45, was appointed as a joint company secretary of our Company on November 16, 2019. Mr. Xi is also a member of senior management of our Company. Please refer to the paragraph headed "— Senior Management" above for his biographical details.

Ms. SUEN Pui Chun Hannah (孫佩真), was appointed as a joint company secretary of our Company on December 14, 2020. Ms. Suen is currently a Manager of Corporate Services of Vistra Corporate Services (HK) Limited. She has over thirteen years of experience in providing company secretarial services to numerous private and listed companies.

Ms. Suen obtained a Master of Corporate Governance from The Open University of Hong Kong and a Bachelor of Arts (Hons) in Translation and Interpretation from The City University of Hong Kong. She has been an associate member of The Hong Kong Institute of Chartered Secretaries and an associate member of The Chartered Governance Institute in United Kingdom since 2019.

CHANGES IN DIRECTORS' INFORMATION

The Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

The Board is pleased to present this report of Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2020.

DIRECTORS

The Directors who held office during the year ended December 31, 2020 and up to the date of this annual report are:

Executive Directors:

Dr. XIA Yu (夏瑜) *(Chairwoman, president, and chief executive officer)*
Dr. LI Baiyong (李百勇)
Dr. WANG Zhongmin Maxwell (王忠民)
Mr. XIA Yu (Ph.D.) (夏羽)

Non-executive Directors:

Mr. XIE Ronggang (謝榕剛) *(Appointed as a non-executive Director on August 19, 2020)*
Dr. ZHOU Yi (周伊)
Mr. LIN Lijun (林利軍) *(Resigned as a non-executive Director on August 19, 2020)*

Independent Non-executive Directors:

Dr. ZENG Junwen (曾駿文)
Dr. XU Yan (徐岩)
Mr. TAN Bo

Mr. LIN Lijun resigned as a non-executive Director due to his other personal commitments which require more of his dedication and time commitment.

Biographical details of the Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 47 to 54 of this annual report.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on January 30, 2019 as an exempted company with limited liability. The Company's ordinary shares (the "**Shares**") were listed on the Main Board of the Stock Exchange on April 24, 2020.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Company's subsidiaries were involved in research and development of biological products.

The activities and particulars of the Company's subsidiaries are shown under Note 1 to the financial statements. An analysis of the Group's results for the year ended December 31, 2020 by principal activities of the Group is set out in the section headed "Management Discussion and Analysis" in this annual report.

BUSINESS REVIEW

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance, an indication of likely future developments in the Group's business and the Group's key relationships with its stakeholders who have a significant impact on the Group and on which the Group's success depends, is set out in the section headed "Management Discussion and Analysis" of this annual report. These discussions form part of this annual report. Events affecting the Company that have occurred since the end of the financial year is set out in the section headed "Important Events After The Reporting Period" in this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is committed to operate its business in compliance with applicable environmental protection laws and regulations and has implemented relevant environmental protection measures in compliance with the required standards under applicable PRC laws and regulations.

Further details of the Company's environmental policies and performance are disclosed in the environmental, social and governance report of the Company for the year ended December 31, 2020 in this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended December 31, 2020, there was no material breach of, or non-compliance, with applicable laws and regulations by the Group.

HUMAN RESOURCES

As at December 31, 2020, the Group had a total of 746 (2019: 366) employees and the total staff costs for the Reporting Period (including directors' emoluments) were RMB469.8 million. Remuneration of our employee is determined with reference to market conditions and individual employees' performance, qualification and experience. In line with the performance of the Group and individual employees, a competitive remuneration package is offered to retain employees, including salaries, discretionary bonuses and contributions to benefit plans (including pensions). During the Reporting Period, the relationship between the Group and our employees has been stable. We had not experienced any strikes or other labor disputes which materially affected our business activities. We provide training programs to employees, including new hire orientation and continuous on-the-job training in order to accelerate the learning progress and improve the knowledge and skill levels of our employees.

RETIREMENT BENEFITS SCHEME

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme. In addition, the Group has one employee who is required to participate in the Mandatory Provident Fund in Hong Kong.

Details of the pension obligations of the Company are set out in Note 2.5 and Note 6 to the financial statements in this annual report.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTION

Details of the related party transactions of the Group for the year ended December 31, 2020 are set out in Note 33 to the financial statements contained herein.

None of the related party transactions constitute a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

During the year ended December 31, 2020, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

As we currently have no products approved for commercial sale and have not generated any revenue from product sales, we did not record any revenue in 2020. For the year ended December 31, 2019, our total revenue was from one single customer in connection with our out-licensed product AK107/MK1308.

None of the Directors, their respective close associates, or any shareholder of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued capital, has any interest in any of the Group's five largest customers.

For the year ended December 31, 2020, purchases from the Group's five largest suppliers accounted for approximately 33.5% (2019: 49.5%) of the Group's total purchase amount in the same year. The Group's largest supplier for the year ended December 31, 2020 accounted for approximately 11.6% (2019: 14.7%) of the Group's total purchase amount for the same year.

None of the Directors, their respective close associates, or any shareholder of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued capital, has any interest in any of the Group's five largest suppliers.

During the year ended December 31, 2020, saved as disclosed in Note 30 to the financial statements, the Group did not experience any significant disputes with its customers or suppliers.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers, customers and other stakeholders to meet its immediate and long-term goals. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain principal risks and uncertainties facing the Group, some of which are beyond its control.

- We may need additional capital to meet our operating cash requirements;
- We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our drug candidates if our drug candidates fail to demonstrate safety and efficacy to the satisfaction to the regulatory authorities;
- We may not be able to identify, discover, develop new drug candidates;
- We may be unable to commercialize our drug candidates on a timely basis since clinical drug development involves a lengthy and expensive process with an uncertain outcome;
- We may not be able to protect our intellectual property rights throughout out the world or prevent unfair competition by third parties;
- We sometimes work with third parties to develop our drug candidates and have entered into collaborations and may form or seek collaborations or strategic alliances in the future, which is subject to risks.

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

FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last three financial years, is set out on page 200 of this annual report. This summary does not form part of the audited consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their respective holding of the Company's securities.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 1 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended December 31, 2020 are set out in Note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2020 are set out in Note 25 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

DONATION

During the year ended December 31, 2020, the Group made charitable donations of approximately RMB1.0 million (2019: Nil).

DEBENTURE ISSUED

The Group did not issue any debenture during the year ended December 31, 2020 (2019: Nil).

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2020 (2019: Nil).

RESULTS AND DIVIDEND

The consolidation results of the Group for the year ended December 31, 2020 are set out on pages 120 to 121 of this annual report.

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2020.

There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

PERMITTED INDEMNITY

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director, Auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, Auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Such permitted indemnity provision has been in force for the year ended December 31, 2020. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

RESERVES

Details of the movements in the reserves of the Company during the year ended December 31, 2020 are set out in the consolidated statement of changes in equity of the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2020 are set out in this annual report and Note 22 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of 3 years with effect from the Listing Date.

Mr. XIE Ronggang, was appointed as a non-executive Director on August 19, 2020, has signed a letter of appointment with the Company for an initial term of 3 years with effect from the Listing Date.

Each of the other non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for an initial term of 3 years with effect from the Listing Date.

None of the Directors proposed has a service contract which is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

None of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting has entered into any service agreement or letter of appointment with any member of the Group (excluding agreements expiring or determinable by any member of the Group within one year without payment of compensation other than statutory compensation) during or at the end of the year ended December 31, 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended December 31, 2020 was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debt securities including debentures of, the Company or any other body corporate.

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

As at December 31, 2020, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interest in Shares and underlying Shares

Name of Director	Capacity/Nature of interest	Number of Shares held[1]	Approximate percentage of shares in issue[2]
Dr. XIA Yu	Interest in controlled corporation[3]	21,000,000 (L)	2.67%
	Trustee and settlor of a discretionary trust[4]	59,771,042 (L)	7.59%
	Enforcer[5]	41,170,499 (L)	5.23%
	Interest held though voting powers entrusted by other persons[6]	136,841,582 (L)	17.39%
Dr. LI Baiyong	Interest in controlled corporation[7]	10,934,640 (L)	1.39%
	Trustee and settlor of a discretionary trust[8]	43,738,554 (L)	5.56%
Dr. WANG Zhongmin Maxwell	Interest in controlled corporation[9]	31,492,881 (L)	4.00%
	Trustee and settlor of a discretionary trust[10]	15,746,442 (L)	2.00%

Notes:

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

(2) Based on a total of 787,057,176 shares in issue of the Company as at December 31, 2020.

(3) XIA LLC is a company incorporated in the United States, with all of its voting shares held by Dr. XIA Yu. Dr. XIA Yu is deemed to be interested in the Shares held by XIA LLC.

(4) Dr. XIA Yu is the settlor and trustee of XIA Trust, with certain of her family members as beneficiaries. She is therefore deemed to be interested in the Shares held by XIA Trust under the SFO.

(5) Aquae Hyperion Limited holds the Shares underlying the awards under the RSU Scheme for the ESOP Trust. Dr. XIA Yu acts as the settlor and enforcer and is therefore deemed to be interested in the Shares held by Aquae Hyperion Limited. Zedra Trust Company (Cayman) Limited is the trustee of the ESOP Trust, which indirectly holds Shares as trust property through Aquae Hyperion Limited, and is therefore deemed to be interested in the Shares held by Aquae Hyperion Limited.

(6) Dr. LI Baiyong, Dr. WANG Zhongmin Maxwell, Dr. ZHANG Peng, and their controlled corporations entered into agreement with Dr. XIA Yu to entrust her with their voting rights in 136,841,582 Shares.

(7) LI LLC is a holding company incorporated in the United States, with all of its voting shares held by Dr. LI Baiyong. Dr. LI Baiyong is deemed to be interested in the Shares held by LI LLC.

(8) Dr. LI Baiyong is the settlor and trustee of LI Trust, with certain of his family members as beneficiaries. He is therefore deemed to be interested in the Shares held by LI Trust under the SFO.

(9) WANG LLC is a holding company incorporated in the United States, with all of its voting shares held by Dr. WANG Zhongmin Maxwell. Dr. WANG Zhongmin Maxwell is deemed to be interested in the Shares held by WANG LLC.

(10) Dr. WANG Zhongmin Maxwell is the settlor and trustee of WANG Trust, with certain of his family members as beneficiaries. He is therefore deemed to be interested in the Shares held by WANG Trust under the SFO.

Save as disclosed in this annual report and to the best knowledge of the Directors, as at December 31, 2020, none of the Directors or the chief executive of the Company has any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at December 31, 2020, the following corporations/persons (other than the Directors or the chief executive of the Company) had interests of 5% or more in the issued shares of the Company according to the register of interests required to be kept by the Company under section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares held[1]	Approximate percentage of shares in issue[2]
鄭遜	Interest in controlled corporation[4]	65,340,000 (L)	8.30%
Phaeton Capital	Interest in controlled corporation[4]	65,340,000 (L)	8.30%
Cantrust (Far East) Limited	Trustee of a discretionary trust and interest in controlled corporation[6]	49,335,282 (L)	6.27%
HTKF Investments Limited	Beneficial owner[5]	45,960,000 (L)	5.84%
Hongtu Ventures	Interest in controlled corporation[5]	45,960,000 (L)	5.84%
SCGC	Interest in controlled corporation[5]	45,960,000 (L)	5.84%
Hongtu Akeso	Interest in controlled corporation[5]	45,960,000 (L)	5.84%
Zhongshan Xunying	Beneficial owner[4]	45,600,000 (L)	5.79%
Aquae Hyperion Limited	Beneficial owner[3]	45,270,499 (L)	5.75%
Zedra Trust Company (Cayman) Limited	Trustee[3]	45,270,499 (L)	5.75%

Notes:

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

(2) Based on a total of 787,057,176 shares in issue of the Company as at December 31, 2020.

(3) Aquae Hyperion Limited holds the Shares underlying the awards under the RSU Scheme for the ESOP Trust. Dr. XIA Yu acts as the settlor and enforcer and is therefore deemed to be interested in the Shares held by Aquae Hyperion Limited. Zedra Trust Company (Cayman) Limited is the trustee of the ESOP Trust, which indirectly holds Shares as trust property through Aquae Hyperion Limited, and is therefore deemed to be interested in the Shares held by Aquae Hyperion Limited.

(4) Zhongshan Xunying and Zhongshan Xunxiang which are controlled by Phaeton Capital, holds 45,600,000 Shares and 19,740,000 Shares respectively. Phaeton Capital is controlled by 鄭遜. Phaeton Capital and 鄭遜 are therefore deemed to be interested in the Shares held by Zhongshan Xunying and Zhongshan Xunxiang.

(5) HTKF Investments Limited which is controlled by Hongtu Akeso, holds 45,960,000 Shares. Hongtu Akeso is controlled by Hongtu Ventures which is in turn controlled by SCGC.

(6) Waterband Limited, which holds 34,929,065 Shares, is wholly-owned by Woodband Limited which in turn is beneficially owned by Woodband Trust, as established by Dr. ZHANG Peng as settlor with Cantrust (Far East) Limited as trustee. NineSuns Holding Limited, which holds 14,406,217 Shares, is wholly-owned by Fourxi Limited which is in turn beneficially owned by Fourxi Trust, as established by Mr. LUO Wenfeng as settlor and Cantrust (Far East) Limited as trustee.

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2020, no person (other than the Directors or chief executives of the Company) had registered an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

RESTRICTED SHARE UNIT SCHEME

The Company adopted the RSU Scheme on August 29, 2019, the principal terms of which are set out in the section headed "D. Share Incentive Schemes — 1. Restricted Share Unit Scheme" in Appendix IV to the Prospectus.

(a) Purpose and Principal Terms

The purpose of the RSU Scheme is to recognize and motivate the contributions the grantees under the RSU Scheme (the "**Grantee(s)**"), provide incentives for them to remain with our Company, and attract suitable personnel for our further development. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as it does not involve the grant of options by our Company to subscribe for new shares. The principal terms of the RSU Scheme are as follows:

(i) **Award:** An award of RSU under the RSU Scheme ("**Award(s)**") gives a Participant a conditional right upon the vesting of the Award to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the ESOP Department in its absolute discretion, less any tax, fees, levies, stamp duty and other applicable charges. An award may include, if so specified by the ESOP administration department (the "**ESOP Department**") in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares from the date that the Award is granted to the date that it vests.

(ii) **Award Price:** Each Participant shall pay RMB1.00 as the Award price to accept the Awards granted to such Participant.

(iii) **Scheme Limit:** Number of shares that may be delivered under the RSU Scheme are 45,270,499 Shares that are held by Aquae Hyperion Limited for the RSU Scheme.

(iv) **Participants:** Participants of the RSU Scheme (the "**Participants**") include the following:

  (i) the Employees or officers (including executive, non-executive and independent non-executive directors of the Group);

  (ii) any person or entity (including but not limited to consultants engaged by the company services to the Group) that provides research, development, consultancy and other technical or operational or administrative support to the Group; and

  (iii) any other persons including former employees who, in the sole opinion of the ESOP Department, have contributed or will contribute to the Company or any of its Subsidiaries.

(v) **Term:** The RSU Scheme shall be valid and effective for the period of ten years commencing on August 29, 2019, after which period no further Awards will be granted. In spite of this, the RSU Scheme in all other respects remain in full force and effect and Awards that are granted during the Term may continue to be exercisable in accordance with their terms of issue.

(vi) **Administration:** The RSU Scheme shall be subject to the administration of the ESOP Department set up and authorized by the Board of the Company. The ESOP Department has the right to (i) interpret and construe the provisions of the RSU Scheme, (ii) determine the persons who will be granted Awards, the terms on which Awards are granted and the time when the RSU(s) so awarded may vest, (iii) make such appropriate and equitable adjustments to the terms of the Awards granted as it deems necessary, (iv) appoint independent third party professionals and contractors to assist in the administration of the RSU Scheme, delegate such powers and/or functions, and make any other decisions or determination relating to the administration of the RSU Scheme as the ESOP Department deems appropriate. All decisions made by the ESOP Department is final and binding on all parties.

(vii) **Trustee:** the ESOP Department may appoint independent trustee to assist in the administration and vesting of the Awards and has appointed Zedra Trust Company (Cayman) Limited, trustee service provider and an Independent Third Party, to administer the granting and vesting of the RSU(s).

(b) Restrictions on Grant

No Grant shall be made to, nor shall any Grant be capable of acceptance by, any Participant at a time when the Participant would or might be prohibited from dealing in the Shares by the Listing Rules (where applicable) or by any other applicable rules, regulations or law.

A Grant must not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

(i) the date of the meeting of the Board of the Company (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no Award may be granted.

Such period will cover any period of delay in the publication of a results announcement.

The ESOP Department may not grant any Awards to any Participants in any of the following circumstances:

(i) the requisite approvals for that Grant from any applicable regulatory authorities have not been obtained;

(ii) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the Awards or in respect the RSU Scheme, unless the ESOP Department determines otherwise;

(iii) the Grant would result in a breach by the Company, the Subsidiaries or any of the directors of any applicable securities laws, rules or regulations; or

(iv) where such Grant would result in a breach of the limits of the RSU Scheme.

(c) Grant to Directors

Where any Award is proposed to be granted to a director of any members of the Group, it shall not be granted on any day on which the financial results of the Company are published and during the period of:

(i) 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(ii) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(d) Grant to Connected Persons

Any grant to any director, chief executive officer or substantial shareholder of any member of the Group, or any of their respective associates (as defined in the Listing Rules), shall be subject to the prior approval of the independent non-executive directors (excluding the independent non-executive director who is the proposed grantee of the Awards in question) and shall otherwise be subject to compliance with the requirements of the Listing Rules. Notwithstanding the foregoing, any grant of an Award to a director pursuant to Rule 14A.73(6) of the Listing Rules will be exempted from reporting, announcement and independent Shareholders' approval requirements if the Award forms part of the relevant director's remuneration under his/her service contract.

(e) Grant to PRC resident

If the Grantee is a PRC resident, he or she shall not be entitled to exercise any Award until:

(i) to the extent applicable, any restriction or condition imposed by the relevant PRC laws, regulations and notices in relation to the subscription of or dealing in shares of overseas listed companies by PRC residents or any law, regulation or notice with similar effects have been abolished or removed or ceased to be applicable to the Participant or the Participant has obtained approval, exemption or waiver from the relevant PRC regulatory authorities for the subscription of and dealing in the Shares; and

(ii) he or she has given a representation to the Company to the effect that he or she has satisfied all the relevant laws, regulations and notices in exercising the Award.

(f) Rights attached to Awards

The RSU(s) do not carry any right of a Shareholder unless and until such Shares underlying the Award are actually transferred to the Grantee upon the vesting of the RSU(s). Unless otherwise specified by the ESOP Department in its entire discretion in the Notice of Grant, Grantees do not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying an Award.

(g) Awards to be Personal to the Grantee

Unless otherwise approved by the Company in writing (to the extent permitted by law), an unvested RSU shall be personal to the Grantee and shall not be assignable or transferable by the Grantee provided that following the Grantee's death, unvested RSU(s) may be transferred by will or by the laws of testacy and distribution. The terms of the Scheme and the Notice of Grant shall be binding upon the executors, administrators, heirs, successors and assigns of the Grantee.

(h) Vesting

Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each Award, the RSU(s) granted in an Award shall be subject to a vesting period (if any) and/or the satisfaction of performance and/or other conditions (if any) to be determined by the ESOP Department in its absolute discretion. If such conditions are not satisfied, the vesting date of the RSU(s) shall be postponed for one year. If the vesting terms and conditions of the postponed RSU(s) are not satisfied at the postponed vesting date, the RSU(s) shall automatically lapse.

Upon fulfillment or waiver of the vesting period and vesting criteria (if any) applicable to a Grantee, a vesting notice shall be sent to the Grantee by the ESOP Department, or by any other means the ESOP Department so determines in its sole discretion from time to time, confirming (a) the extent to which the vesting period and conditions have been fulfilled or waived, and (b) the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of these Shares) or the amount of cash the Grantee will receive.

The Grantee is required to execute, after receiving the vesting notice, certain documents set out in the vesting notice that the ESOP Department considers necessary (which may include, without limitation, a certification to the Group that he or she has complied with all the terms and conditions set out in the RSU Scheme and the Notice of Grant).

For the purposes of vesting of the RSU(s), the ESOP Department may release the RSU(s) to the selected Participants by transferring the number of underlying Shares in respect of the RSU(s) to the selected Participants in such manner as determined by it from time to time. The ESOP Department shall inform the Trustee the number of underlying Shares in respect of the RSU(s) being transferred and released to the selected Participant in the manner as determined by the ESOP Department.

If the vesting conditions are not satisfied and no waiver of such condition is granted, the RSU(s) shall be cancelled according to conditions as determined by the ESOP Department in its absolute discretion.

In the event that the Grantee fails to execute the required documents within three months after receiving the Vesting Notice, the vested RSU(s) will lapse.

Notwithstanding the foregoing, if any relevant parties of the RSU Scheme would or might be prohibited from dealing in the Shares by the Listing Rules or by any other applicable laws, regulations or rules within the period specified above, the date on which the relevant Shares shall be transferred (as the case may be) to the Grantee shall occur as soon as possible after the date when such dealing is permitted by the Listing Rules or by any other applicable laws, regulations or rules.

(i) Rights on a Takeover

In the event a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement) is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the vesting date of any RSU(s), the ESOP Department shall, prior to the offer becoming or being declared unconditional, determine at its absolute discretion whether such RSU shall vest and the period within which such RSU shall vest. If the ESOP Department determines that such RSU(s) shall vest, it shall notify the Grantee that the RSU(s) shall vest and the period within which such RSU(s) shall vest.

(j) Rights on a Scheme of Arrangement

In the event a general offer for Shares by way of scheme of arrangement is made to all the Shareholders and has been approved by the necessary number of shareholders at the requisite meetings prior to the vesting of any RSU(s), the ESOP Department shall, prior to such meetings, determine at its absolute discretion whether such RSU(s) shall vest and the period within such RSU(s) shall vest. If the ESOP Department determines that such RSU(s) shall vest, it shall notify the Grantee that the RSU(s) shall vest and the period within which such RSU(s) shall vest.

(k) Rights on a Voluntary Winding-up

In the event a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company prior to the vesting date of any RSU(s), the ESOP Department shall determine at its discretion whether such RSU(s) shall vest, and the period when such RSU(s) shall vest and in the latter case, the unvested RSU(s) must be vested and effected by no later than two Business Days before the day of the proposed shareholders' meeting. If the ESOP Department determines that such RSU(s) shall vest, it shall notify the Grantee that the RSU(s) shall vest and the period within which such RSU(s) shall vest.

(l) Rights on a Compromise or Arrangement

In the event of a compromise or arrangement, other than a scheme of arrangement contemplated above, between the Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the ESOP Department shall determine at its discretion whether such RSU(s) shall vest, and the period when such RSU(s) shall vest. If the ESOP Department determines that such RSU(s) shall vest, it shall notify the Grantee that the RSU(s) shall vest and the period within which such RSU(s) shall vest.

(m) Lapse and cancellation of RSU

An unvested RSU shall be lapsed and cancelled automatically upon the earliest of:

(i) the date of the termination of Grantee's employment or service by the Company or any of its Subsidiaries for cause;

(ii) the date of the termination of Grantee's employment or service with the Company or the Subsidiaries is terminated for any reason other than for cause (including by reason of resignation, retirement, death, disability or nonrenewal of the employment or service agreement upon its expiration for any reason other than for cause);

(iii) the date on which the offer (or, as the case may be, revised offer) made in connection with a general or voluntary offer closes;

(iv) the record date for determining entitlements under the scheme of arrangement referred above closes;

(v) the date of the commencement of the winding-up of the Company;

(vi) the date on which the Grantee commits a breach of paragraph (g) above; or

(vii) the date on which it is no longer possible to satisfy any outstanding conditions to vesting.

The ESOP Department shall have the right to determine what constitutes cause, whether the Grantee's employment has been terminated for cause, the effective date of such termination and whether someone is a Competitor, and such determination by the ESOP Department shall be final and conclusive.

Unless the ESOP Department determines otherwise in its absolute discretion, the Grantee or his/her legal personal representative is entitled to exercise vested RSU(s) by serving the application for exercising unvested RSU(s) within one month following the occurrence of the termination of Grantee's employment or service with the Company or the Subsidiaries which is terminated for any reason other than for cause (including by reason of resignation, retirement, death, Disability or non-renewal of the employment or service agreement upon its expiration for any reason other than for cause).

Subject to the applicable laws, the vested RSU(s) prior to being exercised and the underlying shares or proceeds obtained by the Grantee from exercising the vested RSU(s) less the exercise price of the Grantee's RSU(s) shall be returned by the Grantee to the Company per the ESOP Department's request following the occurrence of one of more of the following events:

(i) the Grantee's employment is terminated by the Company or any of its Subsidiaries for Cause;

(ii) or the Grantee either: (a) becomes an officer, director, employee, consultant, adviser, partner of or stockholder or other proprietor owning more than 5% interest in any Competitor; or (b) knowingly performs any act that may confer a competitive benefit or advantage upon any Competitor,

at any time before or within 12 months after the Grantee's employment is terminated by the Company or any of its Subsidiaries for any reason.

(n) Further restrictions on RSU

The Grantee shall not be entitled to sell, transfer or deal with the Shares underlying the RSU(s) granted pursuant to the RSU Scheme upon the occurrence of one or more of the following events:

(i) the Grantee's employment is terminated by the Company or any of its Subsidiaries for Cause; or

(ii) the Grantee either: (a) becomes an officer, director, employee, consultant, adviser, partner of or stockholder or other proprietor owning more than 5% interest in any Competitor; or (b) knowingly performs any act that may confer a competitive benefit or advantage upon any Competitor,

at any time before or within 12 months after the Grantee's employment is terminated by the Company or any of its Subsidiaries for any reason.

If the Grantee sells, transfers or deals with the Shares in breach of the above, the Grantee shall pay the Company the proceeds or consideration obtained (less the exercise price of the Grantee RSU(s)) as a result of such breach upon demand by the Company.

The ESOP Department may at any time cancel any unvested RSU granted to a Grantee subject to consent by the Grantee. Where the Company cancels unvested RSU(s) and makes a grant of new RSU(s) to the same Grantee, such Grant may only be made with available RSU(s) to the extent not yet granted (excluding the cancelled RSU(s)).

Notwithstanding the aforesaid in this paragraph, in each case, the ESOP Department may in its absolute discretion decide that any RSU(s) shall not be cancelled or determine subject to such conditions or limitations as the ESOP Department may decide.

(o) Reorganization of Capital Structure

In the event of an alteration in the capital structure of the Company, by way of capitalisation of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of shares, reduction of the share capital, amongst others, of the Company, whilst any RSU(s) has not vested, such corresponding alterations (if any) shall be made to the number or nominal amount of Shares subject to the RSU(s) so far as unvested as the Auditors or an approved independent financial adviser shall certify in writing, either generally or as regard any particular Grantee, to have in their opinion, fairly and reasonably satisfied the requirement that such adjustments give a Participant the same proportion (or rights in respect of the same proportion) of the share capital of the Company as that to which that Grantee was previously entitled, but that no such adjustments be made to the extent that a Share would be issued at less than its nominal value.

However, in the case of any capitalisation issue or share sub-division to be implemented by the Company as required for the purpose of the Global Offering, no such certification by the Auditors or a financial advisor shall be required.

(p) Amendment of the RSU Scheme

Save for any material amendments to the RSU Scheme, the Scheme may be altered in any respect by a resolution of the ESOP Department. The ESOP Department's determination as to whether any proposed alteration to the terms and conditions of the RSU Scheme is material shall be conclusive, provided in each case that such decision is made in accordance with the Articles of the Company and any applicable laws.

(q) Termination of the RSU Scheme

The Board of the Company or the ESOP Department may at any time terminate the operation of the RSU Scheme and in such event no further RSU(s) will be offered but in all other respects the provisions of this Scheme shall remain in full force and effect in respect of RSU(s) which are granted during the life of this Scheme and which remain unvested immediately prior to the termination of the operation of the RSU Scheme.

(r) General

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares underlying any Awards which may be granted pursuant to the RSU Scheme. As of the Latest Practicable Date, RSUs for an aggregate of 18,546,562 Shares have been granted to certain eligible participants by our Company under the RSU Scheme. Such RSUs will be vested to the grantees after the completion of the Global Offering and according to their respective vest schedule.

The Company will issue announcements according to applicable Listing Rules, disclosing particulars of any RSUs granted under the RSU Scheme, including the date of grant, number of Shares involved, the vesting period and comply with Chapter 14A of the Listing Rules. Details of the RSU Scheme, including particulars and movements of the RSUs granted during each financial year of our Company, and our employee costs arising from the grant of the RSUs will be disclosed in our annual report.

As of December 31, 2020, RSUs for an aggregate of 18,546,562 Shares have been granted to certain eligible participants by the Company under the RSU Scheme. 12,535,262 out of the 18,546,562 RSUs have been vested to grantees after the completion of the Global Offering and according to their respective vest schedule as of December 31, 2020.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individual in the Group are set out in Note 8 and Note 9 to the financial statements.

For the year ended December 31, 2020, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived or agreed to waive any emoluments for the year ended December 31, 2020.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2020, by the Group to or on behalf of any of the Directors.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders during the year ended December 31, 2020 or subsisted at the end of the year.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2020.

MATERIAL LEGAL PROCEEDINGS

Save as disclosed in Note 30 to the financial statements, the Group was not involved in any material legal proceeding during the year ended December 31, 2020.

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

Saved as disclosed in the section headed "Use of Net Proceeds" in this annual report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to December 31, 2020.

AUDITOR

The Company's shares were only listed on the Stock Exchange on April 24, 2020, and there has been no change in auditor since the Listing Date. The consolidated financial statements for the year ended December 31, 2020 have been audited by Ernst & Young, Certified Public Accountants and Registered Public Interest Entity Auditor, who are proposed for reappointment at the forthcoming annual general meeting of the Company.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

On January 14, 2021, 30,000,000 new shares were issued at a price of HK$39.60 per share to not less than six independent third parties for an aggregate cash consideration, before expenses, of HK$1,188 million (equivalent to RMB900 million). The related transaction costs amounting to HK$16.7 million (equivalent to RMB13.9 million) were netted off against the cash proceeds. Details have been set out in the announcements of the Company dated January 7, 2021 and January 14, 2021 respectively.

Save as disclosed above, no important events affecting the Company occurred since the Reporting Period and up to the date of this annual report.

On behalf of the Board
Akeso, Inc.

Dr. XIA Yu
Chairwoman and executive director

Hong Kong, March 31, 2021

The Board of Directors is pleased to present the corporate governance report for the Company for the year ended December 31, 2020.

CORPORATE GOVERNANCE PRACTICES

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company has adopted the CG Code as its own code to govern its corporate governance practices.

As the Shares were listed on the Stock Exchange on April 24, 2020, the CG Code did not apply to the Company during the period before the Listing Date. The Company has complied with the relevant code provisions contained in the CG Code during the period from the Listing Date to December 31, 2020, except for the deviation from code provision A.2.1 of the CG Code, details of which are explained in the relevant paragraph of this annual report.

The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Under the current organisation structure of the Company, Dr. XIA Yu is the chairwoman and chief executive officer of the Company. With her extensive experience in the industry, the Board believes that vesting the roles of both chairwoman and chief executive officer in the same person provides the Company with strong and consistent leadership, allows for effective and efficient planning and implementation of business decisions and strategies, and is beneficial to the business prospects and management of the Group. Although Dr. XIA Yu performs both the roles of chairwoman and chief executive officer, the division of responsibilities between the chairwoman and chief executive officer is clearly established. In general, the chairman is responsible for supervising the functions and performance of the Board, while the chief executive officer is responsible for the management of the business of the Group. The two roles are performed by Dr. XIA Yu distinctly. We also consider that the current structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors. However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company or its securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the period from the Listing Date to December 31, 2020. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the period from the Listing Date to December 31, 2020.

BOARD OF DIRECTORS

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

As at the date of this annual report, the composition of the Board is as followings:

Executive Directors

Dr. XIA Yu (夏瑜) *(Chairwoman, president, and chief executive officer)*
Dr. LI Baiyong (李百勇)
Dr. WANG Zhongmin Maxwell (王忠民)
Mr. XIA Yu (Ph.D.) (夏羽)

Non-executive Directors

Dr. ZHOU Yi (周伊)
Mr. XIE Ronggang (謝榕剛) *(Appointed as a non-executive Director on August 19, 2020)*

Independent Non-executive Directors

Dr. ZENG Junwen (曾駿文)
Dr. XU Yan (徐岩)
Mr. TAN Bo

The biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 47 to 54 of this annual report.

Mr. XIA Yu (Ph.D.) is the brother of Dr. XIA Yu.

Dr. XIA Yu is the sister of Mr. XIA Yu (Ph.D.).

Except as disclosed above, there is no other relationship (including financial, business, family or other material/relevant relationship(s)) between the Board members.

PERMITTED INDEMNITY PROVISION

As at the date of this annual report, all Directors of the Company were covered under liability insurance purchased by the Company for its Directors.

BOARD MEETINGS

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

During the year ended December 31, 2020, 4 Board meetings were held. The Company expects to continue to convene at least four regular meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code.

A summary of the attendance record of the Directors at Board meetings and committee meetings is set out in the following table below:

	Number of meeting(s) attended/number of meeting(s) held for the year ended December 31, 2020			
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:				
Dr. XIA Yu	4/4	N/A	0/0	0/0
Dr. LI Baiyong	4/4	N/A	N/A	N/A
Dr. WANG Zhongmin Maxwell	4/4	N/A	N/A	N/A
Mr. XIA Yu (Ph.D.)	4/4	N/A	N/A	N/A
Non-executive Directors:				
Mr. XIE Ronggang *(Note 1)*	2/4	N/A	N/A	N/A
Dr. ZHOU Yi	4/4	N/A	N/A	N/A
Mr. LIN Lijun *(Note 2)*	2/4	N/A	N/A	N/A
Independent Non-executive Directors:				
Dr. ZENG Junwen	4/4	1/1	0/0	0/0
Dr. XU Yan	4/4	1/1	0/0	0/0
Mr. TAN Bo	4/4	1/1	N/A	N/A

Notes:

1. Mr. XIE Ronggang was appointed as a non-executive Director on August 19, 2020.

2. Mr. LIN Lijun resigned as a non-executive Director on August 19, 2020.

As the Shares were listed on the Stock Exchange on April 24, 2020, no general meeting, Nomination Committee meeting or Remuneration Committee meeting had been held during the period from the Listing Date up to December 31, 2020.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received from each of the independent non-executive Directors a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent. Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of 3 years with effect from the Listing Date.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of 3 years with effect from the Listing Date.

Mr. XIE Ronggang, a non-executive Director, has signed a letter of appointment with the Company for an initial term of 3 years with effect from the Listing Date.

Each of the other non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for an initial term of 3 years with effect from the Listing Date.

All the Directors are subject to retirement by rotation and re-election at annual general meeting of the Company. Pursuant to the Articles of Association, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office and be eligible for re-election at each annual general meeting of the Company, provided that every Director is subject to retirement by rotation at least once every three years. In addition, any new Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Mr. Xie Ronggang has been appointed as a non-executive Director with effect from August 19, 2020. Mr. Xie is subject to retirement by rotation and re-election at the forthcoming annual general meeting of the Company in accordance with the article 16.2 of the articles of association of the Company.

In accordance with article 16.18 of the Company's articles of association, Dr. Xia Yu, Dr. Li Baiyong and Dr. Wang Zhongmin Maxwell will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is the primary decision making body of the Company and is responsible for overseeing the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board makes decisions objectively to safeguard in the interests of the Company and its shareholders. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. Before entering into any significant transactions or commitments on behalf of the Company, senior management should obtain prior approval and authorization from the Board.

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

BOARD COMMITTEES

The Board has established three committees, namely, the audit committee, the remuneration committee and the nomination committee, for overseeing particular aspects of the Company's affairs. Each of these committees is established with defined written terms of reference. The terms of reference of each of these committees are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 and paragraph D.3 of the CG Code. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The Audit Committee consists of three independent non-executive Directors being Dr. ZENG Junwen, Dr. XU Yan and Mr. TAN Bo. The chairman of the audit committee is Mr. TAN Bo. Mr. TAN Bo holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The Audit Committee had reviewed together with the management the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended December 31, 2020.

During the period from the Listing Date to December 31, 2020, the Audit Committee has convened 1 meeting. The attendance record of the Directors at meeting of the Audit Committee is set out in the table on page 77.

During the meeting, the audit committee reviewed the interim results of the Company and its subsidiaries for the half-year ended June 30, 2020 and discuss matters with respect to the accounting policies and practises adopted by the Company.

During the year ended December 31, 2020, the Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code. The Remuneration Committee consists of one executive Director, being Dr. XIA Yu, and two independent non-executive Directors, being Dr. ZENG Junwen and Dr. Xu Yan. The Remuneration Committee is chaired by Dr. ZENG Junwen. The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) under the CG Code (i.e. making recommendation to the Board on the remuneration package of individual executive Directors and senior management members). The primary duties of the remuneration committee include, but are not limited to, the following: (i) making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the period from the Listing Date to December 31, 2020, the Remuneration Committee has not convened any meeting.

Details of the remuneration payable to each Director of the Company for the year ended December 31, 2020 are set out in Note 8 to the financial statements.

The remuneration of the members of senior management (excluding Directors) by band for the year ended December 31, 2020 is set out below:

Remuneration bands (HK$)	Number of persons
3,000,001–4,000,000	1
2,000,001–3,000,000	2
1,000,001–2,000,000	—
0–1,000,000	—
TOTAL	3

Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with paragraph A.5 of the CG Code. The Nomination Committee consists of one executive Director, being Dr. XIA Yu, and two independent non-executive Directors, being Dr. ZENG Junwen and Dr. XU Yan. The chairwoman of the Nomination Committee is Dr. XIA Yu. The primary functions of the Nomination Committee include, without limitation, reviewing the structure, size and composition of our Board, assessing the independence of independent non-executive Directors and making recommendations to our Board on matters relating to the appointment of Directors.

During the period from the Listing Date to December 31, 2020, the Nomination Committee has not convened any meeting.

Board Diversity Policy

The Company has adopted a board diversity policy (the "**Diversity Policy**") which sets out the approach to achieve diversity of the Board. The Company embraces the benefits of having a diverse Board to enhance the quality of its performance.

Pursuant to the Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of business management, biotech, clinical research, life science, finance, investment, auditing and accounting. They obtained degrees in various areas including medicine, immunology, chemistry, chemical physics, chemical engineering, pharmaceutical analysis, economics and accounting. At present, the Board considered an appropriate balance of diversity perspectives of the Board is maintained and the Nomination Committee has set measurable objectives (in terms of professional experience, skills, knowledge, gender, age and length of service etc.) to implement the Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained.

During the year ended December 31, 2020, the Nomination Committee has reviewed the diversity of the Board and considered that the Group has achieved the measurable objectives of the Diversity Policy in terms of professional experience, skills, knowledge, gender, age and length of service etc.

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

The Nomination Committee is delegated by the Board to be responsible for compliance with relevant codes governing board diversity under the Corporate Governance Code. The Nomination Committee reviews the Diversity Policy from time to time to ensure its continued effectiveness.

Measurable objectives

For the purpose of implementation of the Diversity Policy, the following measurable objectives were adopted:

(i) Independence: The Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong element of independence in the Board. The independent non-executive Directors shall be of sufficient calibre and stature for their views to carry weight.

(ii) Skills and experience: The Board possesses a balance of skills appropriate for the requirements of the business of the Company. The Directors have a mix of finance, academic and management backgrounds that taken together provide the Company with considerable experience in a range of activities.

(iii) Gender equality: The Board consists of a female director.

Apart from the above objectives, the Diversity Policy has complied with the following objectives with the Listing Rules:

1. at least one third of the members of the Board shall be independent non-executive Directors;

2. at least three of the members of the Board shall be independent non-executive Directors; and

3. at least one of the members of the Board shall have obtained appropriate professional qualifications or accounting or related financial management expertise.

The Board has achieved the measurable objectives in the Diversity Policy.

Dividend Policy

The Company has never declared or paid regular cash dividends on its ordinary Shares. The Company currently expect to retain all future earnings for use in the operation and expansion of the business and do not anticipate paying cash dividends in the foreseeable future. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. The declaration and payment of any dividends in the future will be determined by the Board, in its discretion, and will depend on a number of factors, including our earnings, capital requirements, overall financial condition and contractual restrictions. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. As advised by our Cayman counsel, under the Companies Law, a Cayman Islands company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. In light of our accumulated losses as disclosed in this annual report, it is unlikely that we will be eligible to pay a dividend out of our profits in the foreseeable future. We may, however, pay a dividend out of our share premium account unless the payment of such a dividend would result in our Company being unable to pay our debts as they fall due in the ordinary course of business. There is no assurance that dividends of any amount will be declared to be distributed in any year.

If we pay dividends in the future, in order for us to distribute dividends to our shareholders, we will rely to some extent on any dividends distributed by our PRC subsidiaries. Any dividend distributions from our PRC subsidiaries to us will be subject to PRC withholding tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. For details, please refer to the paragraphs headed "Risk Factors — Risks Relating to Doing Business in China — We may rely on dividends and other distributions on equity paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could materially adversely affect our ability to conduct our business." as set out in the Prospectus.

Nomination Policy

The Board has adopted a nomination policy with regard to nomination of Directors.

The Nomination Committee evaluates and selects candidates based on the non-exhaustive factors, including but not limited to the following, character and integrity, qualifications, skills and knowledge that are relevant to the Company's business and corporate strategy, willingness to devote adequate time to the Board, independence of proposed independent non-executive Directors and diversity aspects under the Diversity Policy.

CORPORATE GOVERNANCE FUNCTION

The Board has delegated the functions set out in code provision D.3.1 of the Corporate Governance Code to the Audit Committee.

The Audit Committee would review the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the Corporate Governance Code and disclosure in its Corporate Governance Report.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company may from time to time and as the circumstances require provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2020.

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

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Pursuant to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Pursuant to the code provision A.6.1 of the CG Code, each newly appointed Director should be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations.

During the period from the Listing Date to December 31, 2020 and up to the date of this annual report, the Directors were regularly briefed on the amendments to or updates on the relevant laws, rules and regulations.

All Directors, namely Mr. Dr. XIA Yu, Dr. LI Baiyong, Dr. WANG Zhongmin Maxwell, Mr. XIA Yu (Ph. D.), Mr. XIE Ronggang, Dr. ZHOU Yi, Dr. ZENG Junwen, Dr. XU Yan and Mr. TAN Bo, have been updated with the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

Prior to the listing of the Company, each of the aforesaid Directors have attended the training courses conducted by the legal adviser of the Company. The content of such training related to the duties of directors and on-going obligations of listed companies.

The Directors are asked to submit a signed training record to the Company on an annual basis.

AUDITOR'S RESPONSIBILITY AND REMUNERATION

The Company appointed Ernst & Young, Certified Public Accountants and Registered Public Interest Entity Auditor, as the external auditor for the year ended December 31, 2020. A statement by Ernst & Young about their reporting responsibilities for the financial statements is included in the Independent Auditors' Report on pages 116 to 119 of this annual report.

Details of the fees paid/payable in respect of the audit and non-audit services provided by Ernst & Young for the year ended December 31, 2020 are set out in the table below:

Services rendered for the Company	**Fees paid and payable** *RMB'000*
Audit services	1,683
Non-audit services	924
Total	2,607

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the Company's risk management and internal control systems and reviewing their effectiveness. The risk management and internal control measures are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

We have established an internal audit function to carry out the analysis and independent appraisal of the adequacy and effective of the Company's risk management and internal control systems. Relevant personnel have been designated to be responsible for identifying and monitoring the Group's risks and internal control issues and reports directly to the Board of any findings and follow-up actions. Each member of the Group is required to adhere strictly to the Group's internal control procedures and report to the internal audit team of any risks or internal control measures.

We have also engaged an independent internal control consultant to perform the review in respect of the adequacy and effectiveness of our risk management and internal control systems and to report factual findings on our Group's entity-level controls and internal controls of various processes. No significant deficiency was located and no material issue was noted or discussed, which required management's attention. The Board is of the view that the risk management and internal control systems in respect of the year ended 31 December 2020 are effective and adequate.

The risk management and internal control systems of the Company are reviewed on an annual basis. Arrangements are in place to identify, evaluate and manage significant risks including facilitating employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

DISCLOSURE OF INSIDE INFORMATION

The Group regulates the handling and dissemination of inside information according to the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information.

COMPANY SECRETARY AND PRIMARY CONTACT OF THE COMPANY

On December 14, 2020, Ms. Chan Pung Fei ("**Ms. Chan**") has resigned as joint company secretary of the Company. Following the cessation of Ms. Chan, Ms. Suen Pui Chun Hannah ("**Ms. Suen**") has been appointed as joint company secretary of the Company at the same date. Ms. Suen is currently a manager of Corporate Services of Vistra Corporate Services (HK) Limited (a company secretarial service provider). Mr. XI Xiaojie is another joint company secretary of the Company, and is the primary contact of Ms. Suen at the Company.

In compliance with Rule 3.29 of the Listing Rules, Mr. XI Xiaojie, Ms. Chan and Ms. Suen have undertook not less than 15 hours of relevant professional training to update their skills and knowledge during the year ended December 31, 2020.

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meetings ("EGM") by Shareholders

Pursuant to the articles of association of the Company (the "**M&A**"), an EGM shall be called by notice in writing of not less than 14 days. Any two or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "**Company Secretary**"), to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

Eligible Shareholder(s) who wish to convene an EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong, at Room 1901, 19/F Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong, for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted at the EGM. The Requisition must be signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder(s) will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM within two (2) months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition.

If within 21 days of the deposit of the Requisition the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene such EGM within a further 21 days, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the M&A, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Putting Forward Enquiries to the Board and Contact Details

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

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

Address:	No. 6, Shennong Road, Torch Development Zone, Zhongshan City, Guangdong Province 528437
Telephone:	0760-8987-3998
Fax:	0760-8987-3900
Email:	ir@akesobio.com

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

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

CHANGES IN CONSTITUTIONAL DOCUMENTS

The Company's Memorandum and Articles of Association were amended and restated as at April 7, 2020 with effect from the Listing Date. A copy of the Company's Memorandum and Articles of Association is available on the websites of the Company and the "HKExnews". Save as disclosed above, during the year ended December 31, 2020, the Company did not made any significant changes to its constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

Overview

This report is the first environmental, social and governance (ESG) report issued by Akeso, Inc. for the period covering January 1, 2020 to December 31, 2020. This report is issued on an annual basis.

Basis of Preparation

This report is prepared in compliance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The contents of this report are determined according to a set of systematic procedures, which include identifying and ranking key stakeholders and prioritizing material ESG issues, setting the scope and boundary of the ESG report, collecting relevant information and data, preparing reports based on such information, and reviewing the data contained herein.

This report is prepared in line with the reporting principles of materiality, quantitative, balance and consistency. In this report, the Company illustrates how to identify and engage with our stakeholders, and determines the materiality matrix and key issues. On this basis, the Company has made quantitative disclosures on the key performance metrics and ensured that the report on its ESG performance is comprehensive and fair.

Reporting Scope

The disclosure scope in this report is consistent with the 2020 annual report of Akeso, Inc.

Explanation for Abbreviations

For better presentation and understanding, each of "Akeso, Inc.", "the Company" and "we" or "us" refers to "Akeso, Inc." in this report.

Source of Data and Reliability Assurance

The data and other information contained in this report are mainly extracted from the relevant documents, reports and statistic results of Akeso, Inc. Akeso, Inc. undertakes that this report contains no false information or misleading statements, and is responsible for the truthfulness, accuracy and completeness of its contents.

Confirmation and Approval

Upon the confirmation of the management, this report has been approved by the Board on March 31, 2021.

2. ESG MANAGEMENT

2.1 Management Mechanism of ESG

We have set up the Environmental, Social and Governance Committee (the "**ESG Committee**") to coordinate the management of ESG issues together with certain key departments, including the administrative and facilities department, the environment, health and safety (EHS) department, the human resources department, the manufacturing department, the logistics and procurement department and the quality control department. The ESG Committee is responsible for supervising ESG issues, communicating with stakeholders through meetings and interviews to understand their demands, and assessing ESG risks and optimizing the assessment standards in line with the business condition of the Company so as to improve the effectiveness of ESG management.

2.2 Communication with Stakeholders

The opinions of stakeholders are crucial to the sustainable development of an enterprise. Attaching great importance to the communication with its stakeholders, Akeso, Inc. is committed to understanding their points of views and demands and giving feedback in a timely manner. Our ESG management decisions and procedures are also enhanced in accordance with their opinions. We strive to upgrade the communication channels with different stakeholders and collect their opinions through regular communication. As a result, we could improve our corporate management for a sustainable business development.

Table 1. List of stakeholder engagement of Akeso, Inc.

Stakeholders	Concerns	Communication and response channels
Shareholders	Compliance operation Corporate governance enhancement Transparent information disclosure International strategic cooperation	Implementation of relevant policies Strengthening of anti-corruption measures Efficient operational system Enhancement of corporate governance Convening of shareholders' general meetings Improvement of communication with shareholders Regular information disclosure Optimization of cooperation platform
Customers	Quality control Innovative research and development platform Customer services Protection of intellectual property rights International strategic cooperation	Establishment of a comprehensive quality control system Enhancement of productivity Improvement of research and development and innovation capacity Adoption of customer-oriented measures Launch of customer satisfaction survey Stringent protection measures for intellectual property rights Optimization of cooperation platform

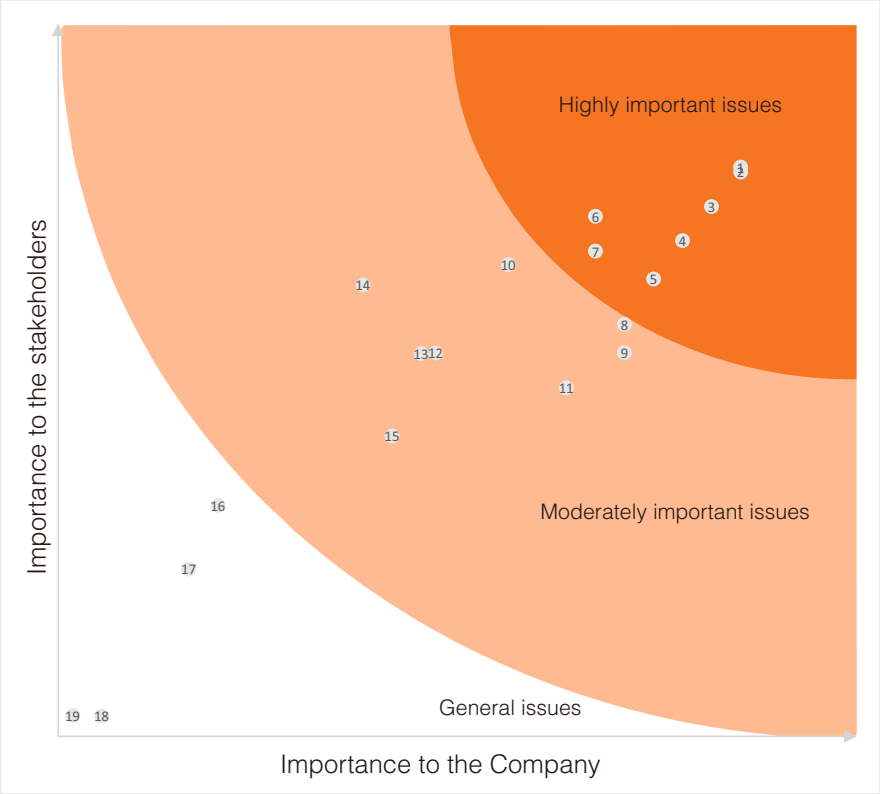
Table 1. List of stakeholder engagement of Akeso, Inc.

Stakeholders	Concerns	Communication and response channels
Employees	Caring of employee Occupational health and safety Training Employment policy Remuneration and benefits	Fostering of corporate culture Introduction of employee communication mechanism Enhancement of employee benefits Employee stock incentive plan Safeguarding of employees' health and safety Organization of training sessions for employees Fair recruitment Provision of reasonable remuneration packages Provision of reasonable promotion path
Government	Operational compliance Transparent information disclosure Environmental protection Emission management Energy saving	Implementation of related policies Strengthening of anti-corruption measures Regular information disclosure Compliance with the environmental protection laws Reduction of pollutant emission Resources saving
Suppliers	Procurement management Compliance operation	Strengthening of procurement management Implementation of related policies Strengthening of anti-corruption measures
Community and public	Promotion of local employment Charitable activities for the community Environmental protection Emission management Energy saving	School and enterprise cooperation Organization of charitable activities Compliance with the environmental protection laws Reduction of pollutant emission Resources saving

2.3. Materiality Analysis

During the year, the survey for our stakeholders was prepared according to the Environmental, Social and Governance Reporting Guide of HKEx for the purpose of reviewing the issues in relation to the ESG management of Akeso, Inc. in 2020 and proposing certain ESG related resolutions.

249 questionnaires were completed and returned by stakeholders for this survey regarding 19 ESG issues, of which seven were ranked as highly important issues, eight were ranked as moderately important issues and four were ranked as general issues. The following is the level of the materiality of each ESG issue ranked by stakeholders:



Highly important issues	Moderately important issues	General issues
1. Safety of clinical trials	8. Employment compliance	16. Water usage
2. Product quality and safety	9. Attracting and retaining talents	17. Energy and greenhouse gases management
3. Protection of data and privacy	10. Corporate governance	18. Community engagement
4. Protection of intellectual property rights	11. Employee development and training	19. Mitigation of and adaptation to climate change
5. R&D innovation	12. Peer cooperation and development of the industry	
6. Compliance with business ethics	13. Emission management	
7. Occupational health and safety	14. Chemical management	
	15. Supply chain management	

Fig.1. Materiality Matrix of ESG Issues of Akeso, Inc. in 2020

3. PRODUCT RESPONSIBILITY

In order to address global unmet medical needs in oncology, immunity and other therapeutic areas, Akeso, Inc. focuses on the research of first-in-class new drugs and the establishment of product quality management system to promote the registration and commercialization of products.

3.1 Manufacturing Quality Management

Akeso, Inc. strictly complies with the PRC Drug Administration Law (《中華人民共和國藥品管理法》), the Administrative Measures for Drug Registration (《藥品註冊管理辦法》), the Administrative Measures for the Supervision of Pharmaceutical Manufacturing (《藥品生產監督管理辦法》), Good Manufacturing Practice (《藥品生產質量管理規範》) (GMP) and other applicable laws and regulations and has established quality management systems and procedures for drug discovery and development, non-clinical research, clinical trials and commercialization manufacturing in accordance with the requirements of GMP and ICH Q10 pharmaceutical quality system. Akeso, Inc. insists on manufacturing drugs in accordance with high standards and manufacturing new affordable antibody drugs with favorable safety profile and good efficacy for patients worldwide.

Quality management department performs its duties relating to quality management in accordance with the Quality Management Policies and Standards and Term of Reference of Quality Management Department of Akeso, Inc. (《康方生物質量方針、質量目標及各部門質量職責》), which cover the quality management of material management system, plant facilities and equipment and utilities system, manufacturing and packaging system, quality control system and quality assurance system. The Company has formulated and implemented Document Management Procedure (《文件管理程序》), Quality Risk Management Procedure (《質量風險管理程序》), Deviation Management Procedure (偏差管理程序), Change Management Procedure (《變更管理程序》), Confirmation and Verification Management Procedure (《確認與驗證管理程序》) and other management procedures. The Company continuously updates such procedures and organizes trainings in the course of its daily operation based on the implementation of procedures and in accordance with the updates of regulations, in order to ensure the compliance of its drug manufacturing and quality.

We have standardized the identification, assessment and mitigation of risks in accordance with Quality Risk Management Procedure (《質量風險管理程序》) which covers the entire life cycle of products including research and development, manufacturing, sales and withdrawal. The quality management department analyzes risks by using various methods such as failure mode and effect analysis (FMEA), hazard analysis and critical control points (HACCP), fishbone diagram, process capability analysis, and regression analysis. The department carries out hierarchical management based on the assessment results and formulates measures accordingly to control risks.

During the reporting period, Akeso, Inc. did not experience any product recall due to safety and health concerns.

3.2 Research and Development Quality Management

During the non-clinical research stage, we conduct trials and research in accordance with the Administrative Measures for Good Laboratories Practice of Non-clinical Laboratory (《非臨床研究質量管理規範》) (GLP) and conduct on-site audits on the outsourced researchers, in order to ensure that those researchers are in compliance with GLP, ISO17025:2005 General Requirements For The Competence Of Testing And Calibration Laboratories and ISO15189:2012 Medical Laboratories Requirements For Quality And Competence. During the clinical trial stage, we make declaration and conduct trials strictly in compliance with the Administration of Quality of Drug Clinical Practice (《臨床試驗質量管理規範》) (GCP) and the PRC Drug Administration Law (《中華人民共和國藥品管理法》), so as to protect the right of option, right to know and personal privacy of clinical trial participants.

Adhering to the ethics of pharmaceutical research and development, Akeso, Inc. regards the rights and interests of patients as its top priority in conducting clinical trials. In accordance with the Administrative Measures for Drug Registration (《藥品註冊管理辦法》) and Measures for the Ethical Review of Biomedical Research Involving Humans (《涉及人的生物醫學研究倫理審查辦法》) and following the principles of the Declaration of Helsinki (《赫爾辛基宣言》), patients are required to execute Informed Consent Form (《受試者知情同意書》) before participating in any clinical trial. The Informed Consent Form clarifies that the subjects shall have the right to know about the clinical trial and right of option and may refuse or drop out of the trial at any time if they so wish, and the privacy and other rights and interests of subjects shall also be protected.

We have formulated 155 standard operating procedures (SOPs) related to clinical trial management which cover personnel training, file management, clinical operation, clinical medical research, pharmacovigilance, data collection and management, supplier management, and preparation and publication of clinical documents. We also organize training programs for personnel responsible for conducting clinical trial. In order to ensure the quality of clinical trial and the completeness of data, we conduct self-inspection and engage third parties to conduct inspection.

Abiding by the ethics of animal experiments and strictly following the applicable regulations on animal experiments of the PRC and the regions where it operates, the Company conducts animal experiments in accordance with international norms. In 2019, we passed the quinquennial assessment of expert on-site review and obtained the Certificate for Use of Laboratory Animals (《實驗動物使用許可證》) from Guangdong Provincial Department of Science and Technology. In accordance with the Regulations for the Administration of Affairs Concerning Experimental Animals (《實驗動物管理條例》), the Regulations for the Administration of Affairs Concerning Experimental Animals of Guangdong (《廣東省實驗動物管理條例》), Code of Welfare and Ethics of Laboratory Animals (《實驗動物福利倫理工作規範》) and other guidelines, we have established a laboratory animal management committee and an ethics committee with written terms of reference. Measures and SOPs for biosafety management of animal house, emergency management of animal houses, animal operation management and animal experiments are in place to conduct pharmacological experiments promoting the development of innovative drugs while improving the management of laboratory animals. The Company is committed to protecting the welfare of laboratory animals and promoting the standardization of management of laboratory animal and the monitoring and supervision of animal ethics.

3.3 Pharmacovigilance system

In accordance with the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), Akeso, Inc. conducts pharmacovigilance (PV) throughout the whole life cycle of drugs to monitor and control adverse reactions of drugs and other adverse drug-related reactions. A drug safety committee has been set up to formulate strategies to ensure the safety of drugs based on the assessment on safety profile of products and handle emergency safety incidents.

A clinical safety and pharmacovigilance department has been established to monitor, collect, report and analyze the safety information of clinical trials conducted before marketing and medical products sold after marketing across the world and monitor the signal of drugs and manage related risks. In addition, the pharmacovigilance department reviews the compliance of the Company in accordance with administrative measures and identifies and assesses risks. The department also continuously updates the SOPs for pharmacovigilance system, formulates and updates pharmacovigilance quality control indicators to determine whether the reports on adverse reaction of drugs are in compliance with regulations, whether the signals are being detected and assessed in a timely manner, and whether key pharmacovigilance documents are updated in a timely manner. The department also reviews the formulation and implementation of pharmacovigilance plan and the training and assessment of pharmacovigilance.

3.4 Intellectual Property Protection

Intellectual property protection is essential to the operation of the Company. We abide by the Patent Law of the PRC (《中華人民共和國專利法》), the Trademark Law of the PRC (《中華人民共和國商標法》) and other laws and regulations. We enter into Confidentiality Clause (《保密條款》) and Confidentiality and Non-competition Agreement (《保密與競業禁止協議書》) with our employees which stipulate the ownership of intellectual property and confidentiality clauses and specify the obligations and responsibilities of employees for protecting the intellectual property of the Company. A management system that meets the national standard GBT 29490-2013 Enterprise Intellectual Property Management has been established to improve the management and protection of intellectual property of the Company. We have established a special intellectual property department to review and revise documents of intellectual property management system and documents related to intellectual property on a regular basis. The decision made by the department shall be considered and approved by persons in charge at different levels. Personnel responsible for searching and analyzing patent information tracks and analyzes domestic and foreign patent information in a timely manner, and collects and tracks the application of intellectual property, the scope of protection and the number and type of patents of our competitors. Such personnel also cooperate with legal personnel and research and development personnel to compare and analyze intellectual property information to prevent the Company from being infringed by others or infringing others' intellectual property. The contracts and orders that we execute with our suppliers also stipulate intellectual property protection and confidentiality clauses, so as to mitigate related risks.

During the Reporting Period, we had 48 pending patent applications and two issued patents and one pending trademark application and two issued trademarks in 15 countries and regions (including Australia, China, the U.S., the European Union and Japan). We are not involved with any dispute or litigation over intellectual property.

Table 2 Intellectual Property obtained by Akeso, Inc. in 2020
Intellectual Property of Akeso, Inc.

Total number of patent applications	Total number of trademark applications
132 patents	180 trademarks
Total number of issued patents	**Total number of issued trademarks**
43 patents	7 trademarks

4. COMPLIANCE OPERATIONS

4.1 Compliance of business ethics

In compliance with the relevant laws and regulations including the Company Law of the PRC (《中華人民共和國公司法》), Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), the Bidding Law of the PRC (《中華人民共和國招標投標法》), and Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》), we have formulated and implemented internal policies including the Anti-Corruption Administrative Measures (《反舞弊管理辦法》) and Anti-Unfair Competition Administrative Measures (《反不正當競爭管理辦法》) which strictly prohibit violation of business ethics such as bribery, blackmail, fraud and money laundering. Employees are required to sign the Undertaking of Anti-Business Fraud (《反商業賄賂承諾書》) when they enrol and comply with the morality standard stipulated in the Employee Handbook (《員工手冊》) to uphold incorruptibility and self-discipline.

According to the Anti-Corruption Administrative Measures (《反舞弊管理辦法》), which is applicable to the Company and its wholly-owned subsidiaries, the Board of Directors of the Company shall be responsible for organising the construction of internal control mechanism, and the Audit Committee, being the leader and body in charge, shall be responsible for guiding and supervising the anti-corruption work. The management is accountable for the occurrence of corruption and responsible for the formulation and implementation of risk assessment and control measures.

According to the Anti-Unfair Competition Administrative Measures (《反不正當競爭管理辦法》), Directors, management and employees of the Company shall comply with business ethics management and fair competition principle, and shall be prohibited from the provision, offer, solicitation or receipt of bride or kickback, or solicitation or illegal acceptance of property from existing or potential suppliers or customers.

A whistleblowing system accepting real-name and anonymous reports on misconduct is established for our employees and partners. As the standing authority of anti-corruption, the president office shall report to the management or the Board of Directors and launch investigation once a complaint is received. For employees who are verified to have committed fraud, we would impose punishment in accordance with the Incentive and Punishment System (《獎懲制度》). In case of a breach of law, the case shall be handed to the judicial authorities for handling in accordance with laws. We also protect the rights of whistle-blowers and strictly prohibit the leakage of personal information of whistle-blowers. Any individual or his/her close relatives who has conflict of interests in the case shall not participate in the investigation of such case.

During the Reporting Period, the Company had no filed or concluded legal cases regarding corrupt practices.

4.2 Supply chain management

Our procurement activities adhere to the principles of merits, batch orders and competition. We have formulated the Rules for Procurement Management (《採購管理規程》) and the Rules for Supplier Management (《供應商管理規程》) to specify the procedures of procurement and the assessment, examination and approval procedures for suppliers to ensure the acquisition of quality supply and services.

For production materials, we classify the suppliers into class I/II/III based on the importance of materials to the products and set different examination requirement for suppliers based on the classification. The Quality Assurance Department issues the Supplier System Check List (《供應商體系調查表》) to or conduct onsite examination of selected suppliers based on the annual examination. Onsite examination of suppliers covers the quality control of manufacturing techniques and process, quality management and inspection, utility system and material system and other aspects. The onsite examiners conduct objective evaluation through inspecting the documentation system, manufacturing record and onsite inspection of workplace, and issue onsite examination report.

Supplier Classification and Examination Requirement

Class I suppliers	Suppliers that provide Class I materials. Class I materials, also known as key materials, affect the inner quality of products, which mainly include substances, excipients and package materials that contact the products directly.	• Quality examination • Onsite examination • Inspection, testing and process verification
Class II suppliers	Suppliers that provide Class II materials. Class II materials affect the inner quality of products to a certain extent, which include materials that involve microorganism growth reaction and of large usage, microelements that use to manufacture products, materials that affect product quality during the process of extraction and purification; consumables that directly contact with the products during the manufacturing process such as bioreactor bags, liquid storage bags, filters and electrodes; aluminium-plastic composite covers for antibiotic bottles and text printed package materials that do not contact the product directly.	• Quality examination • Onsite examination shall be subject to the results of risk evaluation • Inspection, testing and process verification
Class III suppliers	Suppliers that provide Class III materials. Class III materials do not affect the inner quality of products, which include packaging materials without printed text and do not contact the products directly, consumables used for manufacturing and test reagents and culture medium used in laboratory. Distributors are managed under Class III uniformly.	• Quality examination • Usage confirmation • Inspection when necessary

During the Reporting Period, we completed the approval of material suppliers for the AK105 project. All the materials used in the project were approved. Some of the materials we used from foreign suppliers that failed to complete onsite examination due to the pandemic, onsite and data examination for all of the other suppliers were completed and approved to be our qualified suppliers.

In order to ensure the stability of supply chain, we conduct risk evaluation and control on the delivery cycle, quality management, logistic and transportation, services, company background and intellectual property of our suppliers. In accordance with the Supplier Management Procedures (《供應商管理程序》), we have selected one or two alternative suppliers for all important materials in order to cope with any issue regarding the major supplier including delivery, product quality or policy changes. In order to minimize the risk of supply chain quality management, all suppliers are required to sign the Quality Assurance Agreement (《質量保證協議》) to ensure continuous provision of products and services that meet our quality standard. Change in the suppliers of manufacturing materials shall follow the Change Management Procedures (《變更管理程序》). Any change may only take effect upon filling in and submitting the Application for Change of Supplier (《供應商變更需求》) specifying the projects, materials, departments and suppliers to be involved to the Quality Assurance Department for review and approval so as to ensure the product quality of the Company remains unchanged.

We attach great importance to the integrity of supply chain. All procurement personnel shall sign the Undertaking of Anti-Business Fraud (《反商業賄賂承諾書》) and strictly abide by the principles of fairness, justice and openness. Business bribery is strictly prohibited when conducting business activities or cooperation. Acceptance of anything of value is not allowed and no business opportunities or interests for the benefit of others shall be acquired through improper means or approach.

Table 3 Distribution of Suppliers of Akeso, Inc. in 2020

Location of Supplier	Unit	Quantity
China (including Hong Kong, Macau and Taiwan)	Number	43
Outside China	Number	15

5. EMPLOYMENT RESPONSIBILITIES

In order to secure our employees' interests and to form a well-coordinated team of talents, Akeso, Inc. strictly complies with the Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), the Employment Promotion Law of the PRC (《中華人民共和國就業促進法》), the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Employment Ordinance of the Hong Kong Special Administrative Region (Chapter 57 of the Laws of Hong Kong) and other applicable laws and regulations.

5.1 Employment and Labor

We advocate equality in employment on the principle of "openness, fairness, competitiveness and meritocracy". All candidates are entitled to employment equality and would not be discriminated due to their cultural background, race, religion, gender, age, marital status, sexual orientation and referrer. The Company will select the best candidates based on the assessment of their qualifications and abilities.

The Company strictly complies with the Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》) and other applicable laws and regulations, pursuant to which child labor is prohibited. As stipulated in our Employee Handbook (《員工手冊》), the employment of any person under the age of 18 shall be prohibited. In order to ensure the authenticity of employees' identity and the compliance with labor regulations, the human resources department shall carry out the initial assessment of the basic personal information, including education background, identity documents and health certification, provided by the candidates during employment process.

Remuneration is an important lever which enables us to achieve development strategies and surmount the bottleneck in human resources management. We determine the remuneration in accordance with the knowledge, skill, experiences and position of each employee in an open and fair manner. The remuneration is also adjusted according to employees' performance and appraisal results. We comply with the policies in relation to social insurance and housing provident funds, and have formulated the "Benefit Handbook" (《福利手冊》), pursuant to which we provide a series of benefits for our employees, including marriage gift, childbearing gift and annual physical examination.

The Company prohibits forced labor and implements standard working hour system (標準工時工作制), consolidated working hour system (綜合計算工時工作制) and irregular working hour system (不定時工作制) for different positions. Female employees who are expecting or nursing mothers shall be exempt from working overtime and shall avoid business trip when possible. Female employees in her seventh month of pregnancy or above, or during nursing period, shall be exempt from working night shift. We have formulated the Attendance and Leave Management Procedures of Employees (《員工考勤與休假管理規程》), pursuant to which each employee shall be entitled to annual leaves ranging from five to 15 days and other leaves according to the actual circumstances, including sick leave, maternity leave, paternity leave, wedding leave and bereavement leave.

The Company strives to build a diversified, equal and fair working environment for our employees. We expect employees to develop their own career paths by requiring them to prepare for both short-term and long-term career plans and encouraging them to aim for promotion or develop multiple skills (including working for different departments and associated companies). In order to explore employees' potential leadership and enhance their personal ability, we have provided open and transparent development opportunities and diversified training system.

The dismissal of employee shall be subject to several internal management systems, including the Management System for Employment and Dismissal of Employees (《員工入、離職管理制度》) and the Disciplinary Procedures for Misconduct of Employees (《員工違反制度懲戒管理規程》). For the dismissal of an employee in key position, the Confidentiality Agreement of Employee (《員工保密協議書》), in which the employee undertakes to protect the commercial secrets of the Company, shall be signed by both of the employee and the Company before dismissal.

As of the end of the Reporting Period, Akeso, Inc. had 746 employees with a staff turnover rate of 11.3%. The classification of employees by gender, age and geographical location is as follows:

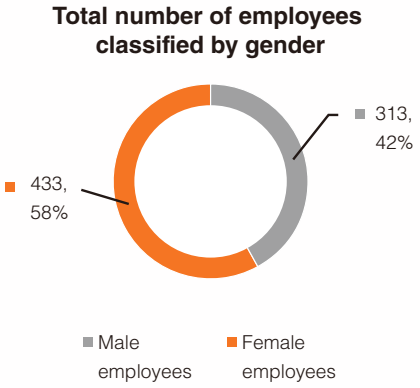


Fig. 2. Total number of employees of Akeso, Inc. in 2020 classified by gender

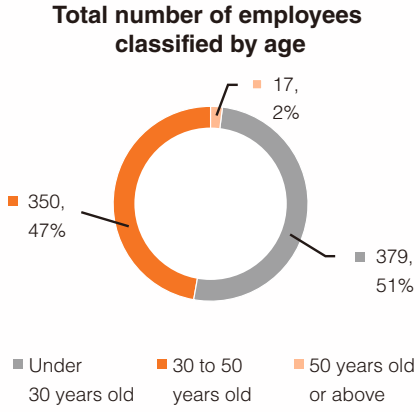


Fig. 3. Total number of employees of Akeso, Inc. in 2020 classified by age

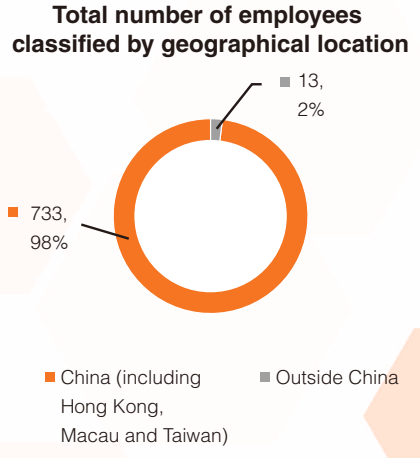


Fig. 4. Total number of employees of Akeso, Inc. in 2020 classified by geographical location

5.2 Development and Training

Akeso, Inc. has formulated the Management Procedures of Employee Training (《員工培訓管理規程》) and established an employee training system to facilitate the launch of various training activities for employees to obtain knowledge and skills in line with the development of the Company. We endeavour to provide training for all of our employees. The training is classified into five different types, including enrollment training, special operation training, marketing training, self-training and other training. Employees are encouraged to participate in training programs in the forms of correspondence courses and self-study, and to acquire professional qualifications by participating in general skill training programs.

Details of the three training stages for new staff are as follows:

- Corporate-level training is organized by the human resources department for the introduction of basic knowledge including corporate overview, labor law and disciplines and the Good Manufacturing Practice (GMP);

- Department-level training is organized by the technological research and production quality management department for the training of safe production, laboratory management mechanism and occupational health and safety, while the training of department rules is organized by the management department;

- Position-level training for equipment operation, equipment management and safe production is organized by the specific team employees involved in.

We organize and adjust the number of training programs in accordance with the production and operation needs for each year. The human resources department is responsible for implementing the annual training plans, organizing training programs and allocating training resources, filing and tracking employee training records and providing them with feedback. The training programs in 2020 covered all of our employees from each department with the instructors of our training programs comprising our internal and external experts. Training programs included lectures and self-learning which helped enhance employees' knowledge and professional skills from different perspectives, ensuring the synchronized development of both the Company and its employees.

During the Reporting Period, 467 employees of the Company received training, representing 62.6% of the total number of employees.

Table 4 Training Overview of Akeso, Inc. in 2020

Types of employees		Total number of employees participated in training	Average training time (hour)	Percentage of employee trained
By gender	Male	233	11.9	74.4%
	Female	234	8.6	54.0%
By position	Senior management	4	5.8	36.4%
	Middle management	86	8.4	52.8%
	Entry level employee	377	10.5	65.9%

5.3 Health and Safety

Safe Production

We attach importance to the safety of our employees during operation and experiment, and comply with the Production Safety Law of the PRC (《中華人民共和國安全生產法》) and the Fire Protection Law of the PRC (《中華人民共和國消防法》). We have formulated several guidelines to regulate the grading standards of internal safety issues and the requirements of safety management, including the Management Guideline of Safety Targets and Responsibilities (《安全目標與責任管理制度》), the Management Guideline of Fire Safety (《消防安全管理制度》), the Management Procedures of Workshop Biological Safety (《車間生物安全管理規範》), the Troubleshooting and Management Guideline of Potential Risks (《隱患排查與治理制度》) and the Management Guideline of Warning, Signs and Safety (《警示標示和安全防護管理制》).

In order to strengthen the accountability and the management of safe production, we have set up the Safe Production Committee. The Safe Production Committee formulates a safety target of each department according to the number of incidents from the previous years, the number of employees under each department, the number of equipment and the difficulty of the process. To achieve "zero incident", safety targets are classified into different levels and assigned to different personnel by executing the "Safe Production Declaration" (《安全生產責任書》) with each of the relevant personnel.

For the supervision of safety system, we have designated full-time and part-time safety managers to perform regular safety check and potential safety risk troubleshooting at laboratories, factories and offices, including the qualification and operation procedures of the laboratory personnel, the distribution of protection gears, the environment of the laboratory and the operation of equipment. In addition, we perform ad hoc inspection and spot check at places with higher risk of serious incidents, such as hazardous chemical processing sites and special equipment. For potential safety risks, each department, team and construction project proactively adopt measures to rectify potential risks and submit relevant reports to reduce and prevent the occurrence of safety incident.

The Company has prepared the Contingency Proposal for Safety Production Incident《安全生產事故應急預案》and the Contingency Proposal for Barrier Environment of Laboratory《屏障環境實驗室應急預案管理制度》. Training programs and drills have been carried out for relevant personnel to ensure the relevance and effectiveness of the proposals. We attach great importance to safety promotion and training and have conducted qualification training for special operation personnel in accordance with the Management Provision for Special Operation Personnel《特種作業人員管理細則》to ensure that all workers are qualified. We have also formulated the Training System for Safety Production《安全生產培訓制度》, pursuant to which practical training materials are designed according to different work positions to enhance safety awareness of employees of different levels and types through safety training and education.

During the Reporting Period, Akeso, Inc. had no material safety production incidents and no work-related deaths or injuries.

Occupational Health

The Company strictly abides by the Prevention and Treatment of Occupational Diseases Law of the PRC (《中華人民共和國職業病防治法》) and has formulated the Standard Operation Procedures of Health Management of Employees (《工作人員健康管理標準操作規程》), the Administrative Regulations on the Commute Safety of Employees (《員工上下班交通安全管理規定》) and other internal mechanisms on the occupational health of employees. The Company carries out initiatives in minimizing occupational hazard exposure and provides employees with personnel protective equipment and emergency cleansing devices so as to provide its employees with a healthy and safe workplace.

In order to ensure sufficient personal protection of employees, we provide medicines for all employees for emergency use. We also provide relevant personnel with instructions on the proper use of personal protective equipment and require them to properly wear safety helmets, respirator, antifreeze gloves, acid and alkali resistant gloves and protective apron so as to avoid the occupational diseases. In accordance with the Standard Operation Procedures of Health Management of Employees (《工作人員健康管理標準操作規程》), we require personnel who are responsible for feeding and managing laboratory animals and conducting animal experiments to receive medical check-up in qualified medical centers on an annual basis in an effort to protect their health. The medical record of employees shall be kept by the human resources department.

Chemical Management

In respect of chemical management, we have formulated and complied with the Hazardous Chemical Safety Management System (《危險化學品安全管理制度》), the Management of Precursor and Explosive Chemicals (《易制毒、易制爆化學品管理》) and other internal mechanisms which set out the strict requirements on the procurement, storage, use and management of chemicals. Through maintaining inventory record, we manage the procurement, storage and use of chemicals under strict standards. A chemical warehouse has been established to store chemicals, including precursor and explosive chemicals, which ensures the safety of chemical storage and usage. Personnel who work with chemicals shall obtain the Chemical Processing Certificate (《化學品操作》) and pass the relevant training and assessment before taking up their positions. In addition, we remind our employees of safe chemical management by posting material safety data sheets (SDS), notification cards and management practices in the storage area. Employees are also encouraged to receive regular medical check-up at government departments. We also provide relevant personnel with sufficient personal protective equipment.

6. SUSTAINABLE OPERATION

Akeso, Inc. upholds the philosophy of sustainable operation in strict compliance with applicable laws and regulations on environmental protection, and constantly tracks the compliance requirements in order to robustly control the risks of environmental protection compliance. We have established a comprehensive environment management system to quantify and monitor our emissions and usage of resources under an effective organizational and information framework. Special plans are in place to further improve our environmental performance.

6.1 Emission Management

The Company places great emphasis on emission management and strictly complies with the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法), the Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste (中華人民共和國固體廢物污染環境防治法) and other relevant laws and regulations. We have formulated the Environmental Management Ledger Record System (環境管理台賬制度), Administrative Measure for Waste Effluent, Gas Emission and Waste Residue Treatment (生產廢液、廢氣及廢渣處理管理制度), Emergency Response Plan for Environmental Emergencies (突發環境事件應急處置預案) and other internal management practices to identify, assess and manage potential impacts on environment. Such internal management practices also strictly regulate the use and treatment of hazardous substances in laboratory and waste management, in order to avoid the pollution and damage to the environment caused by our emissions. In order to provide firm guidance on environmental protection and regulate the procedures of emission treatment, we have personnel specifically responsible for environmental protection management.

Gas Emission

The fugitive gas emission generated during the research and development of drugs mainly comprises a small amount of gas not being collected during the experiment. Most of gas, including sulfuric acid mist, hydrogen chloride, volatile organic compounds, is emitted after treatment in gas collection facilities. The emission of hydrogen chloride, odors and other pollutants is in compliance with the Emission Standard of Air Pollutants for Pharmaceutical Industry (製藥工業大氣污染物排放標準) (GB37823-2019), Emission Standards for Odor Pollutants (惡臭污染物排放標準) (GB14554-93) and Emission Limits of Air Pollutants (大氣污染物排放限制) (DB44/27-2001) issued by the provincial government of Guangdong, respectively.

In order to ensure that air pollutants meet the emission standards, we inspect and repair equipment, pipelines and valves on a regular basis to maintain good air tightness of equipment. We also closely supervise our laboratory technicians to ensure that they perform their duties strictly in accordance with standards. We maintain and manage our gas collection system and improve the gas collection rate to minimize the fugitive gas emission and ensure zero odor pollution.

Table 5 Air pollutant emission of Akeso, Inc. in 2020

Type of air pollutant	Unit	Emission
Sulfuric acid mist	kg	6.55
Hydrogen chloride	kg	21.60
Volatile organic compounds	kg	14.23
Non-methane hydrocarbons	kg	21.60

Waste Effluent

Sewage generated by Akeso, Inc. in the course of its manufacturing and operation includes production sewage, cleaning sewage and domestic sewage. We adopt corresponding treatment methods based on the type of sewage to minimize the adverse effects of sewage pollution on the ecological environment. In 2020, Akeso, Inc. generated 54 tonnes of waste effluent in total.

Type of waste effluent	Source of waste effluent	Treatment
Production sewage	Production sewage mainly includes culture solution and sewage generated from cleaning equipment and floor.	Sewage is discharged into our sewage collection tank after being sterilized with high-pressure steam. We engage qualified third-party sewage treatment companies for treatment offsite.
Cleaning sewage	Cleaning sewage mainly includes reverse osmosis reject water, water drained from cooling towers, pure steam and condensed water.	Cleaning sewage and domestic sewage are discharged into municipal sewage pipelines and purified and treated by municipal government authorities.
Domestic sewage	Domestic sewage mainly includes sewage generated from daily activities of employees.	Domestic sewage is purified and treated by municipal government authorities after being treated in septic tanks in the plant.

Waste

In strict compliance with the Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste (中華人民共和國固體廢物污染環境防治法), we have formulated the Waste Management Practices (廢棄物管理規範), Administrative Measures for Prevention and Control of Environmental Pollution of Hazardous Wastes and other internal practices which set out the requirement of separating wastes produced from research and development, production and daily office activities and the requirement on the storage and disposal of such waste. The internal practices also specify the duties of all departments to take measures to further reduce waste, whereby minimizing waste pollution and the adverse effects on human health.

For hazardous waste, the occupational safety department formulates management plan for hazardous waste at the beginning of every year which sets out the waste production of each segment and suggests the plan and measures for waste reduction. The department also submits the management plan for hazardous waste on Guangdong Solid Waste Environmental Supervision Information Platform (廣東省固體廢物環境監管信息平台) as required.

Type of waste	Waste	Treatment
Hazardous waste	Hazardous waste (medical waste, pharmaceutical waste, laboratory waste effluent, other hazardous wastes)	Qualified third-party hazardous waste treatment companies are engaged to treat hazardous waste offsite.
Non-hazardous waste	Recyclable waste (paper, wooden products, metals, plastics, waste glass)	Collected by recycling companies
	Construction or renovation waste	Handled by renovation companies
	Non-recyclable waste (office and domestic waste and kitchen waste)	Collected by sanitation companies

Table 6 Waste produced by Akeso, Inc. in 2020

	Unit	Volume
Hazardous waste production	tonne	1.74
Non-hazardous waste production	tonne	17.65
Average hazardous waste production per person	kg/person	2.33
Average non-hazardous waste production per person	kg/person	23.66

6.2 Use of Resources

Akeso, Inc. strictly complies with the Energy Conservation Law of the PRC (中華人民共和國節約能源法), the Administrative Regulations on Urban Water Conservation (城市節約用水管理規定) and other laws and regulations, and has established a resource management system. Akeso, Inc. is committed to achieving win-win situation for ecology, economy and society through conserving energy and reducing consumption and recycling.

Energy

The main energy sources of the Company are electricity and outsourcing thermal power used for its daily operation. We have set up energy management goals and record energy consumption and analyze energy consumption based on our operation on a regular basis. Energy efficiency has been included in the administrative measures, in order to effectively monitor the use of energy and control energy consumption.

Placing great emphasis on energy conservation and consumption reduction, we issue a proposal on energy conservation and consumption reduction to all employees, in order to promote green office and urge employees to uphold the philosophy of energy conservation and emission reduction in their daily life. We advocate turning off lights and computers after working hour to reduce unnecessary energy consumption. We also advocate using air-conditioner moderately and have formulated and implemented the air conditioner management rules. We have assigned personnel to oversee the usage of air-conditioner and switch off air-conditioner half an hour before leaving office. We also remind employees to switch off air-conditioner in laboratory once they leave.

Table 7 Energy Consumption of Akeso, Inc. in 2020

	Unit	Consumption
Gasoline consumption	liter	2,932.00
Steam consumption	tonne	3,497.00
Outsourcing thermal power consumption	kWh	3,697,393.00
Natural gas consumption	m^3	17,449.00
Average gasoline consumption per person	liter/person	3.93
Average steam consumption per person	tonne/person	4.69
Average outsourcing thermal power consumption per person	kWh/person	4,956.29
Average natural gas consumption per person	m^3/person	23.39

The greenhouse gas emission of the Company mainly comprises indirect emission generated from electricity and outsourcing thermal power consumed by the equipment and lighting system in office and projects under construction. In the course of our operation, we uphold the philosophy of low-carbon and green life style and continue to advocate such philosophy. We aim to reduce greenhouse gas generated during the business trip of employees by holding video conference and telephone conference.

Table 8 Greenhouse Gas Emission of Akeso, Inc. in 2020

	Unit	Emission
Greenhouse gas emission (Scope 1)	tonnes CO_2 equivalent	44.39
Greenhouse gas emission (Scope 2)	tonnes CO_2 equivalent	4,129.63
Total greenhouse gas emission (Scope 1 and Scope 2)	tonnes CO_2 equivalent	4,174.02
Greenhouse gas emission per person	tonnes CO_2 equivalent/person	5.60

Resources

Water resources used by Akeso, Inc. are from the municipal pipe network and there is no difficulty in the supply and purchase of water resources. For water usage, the department in charge is required to check the operation of pure water machine on daily basis and strictly monitor the water usage in canteen, office area and washrooms. Washrooms are equipped with sensory faucet. We perform daily monitoring and supervision on water consumption and conduct regular checking and random inspection. No incident of water wastage, such as water leakage, has been detected during our inspection.

The packaging materials that we use are mainly for external paper packaging of finished products. We continuously refine our packaging design to reduce unnecessary packages from the beginning and prefer to purchase environmentally friendly green materials.

Table 9 Resource consumption of Akeso, Inc. in 2020

	Unit	Consumption
Municipal water consumption	Ton	15,163.00
External paper packaging consumption	Kilogram	1,200
Average municipal water consumption per person	Ton/person	20.33
Average external paper packaging consumption per person	Kilogram/person	1.61

6.3 Environment and natural resources

Our commercialization manufacturing bases in Guangzhou and Zhongshan are under construction. During the construction, we have strictly complied with laws and regulations, including the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) and the Water and Soil Conservation Law of the PRC (《中華人民共和國水土保持法》), and regularly monitored and evaluated environmental risk to perform our environmental protection responsibility and reduce the negative impact on the environment and natural resources during the course of construction and operation in order to protect the natural ecological environment.

For contingency management of environment incidents, we have identified the potential cause of environmental risk and formulated the Contingency Proposal for Environmental Emergency. We have established an emergency operation unit which is equipped with emergency rescue facilities. It regularly carries out emergency drills in order to enhance the response to environmental emergencies.

7. RESPONSIBILITY FOR COMMUNITY

Akeso, Inc. actively undertakes its social responsibility. In response to the national anti-pandemic call, the Company has leveraged on its business strength and donated medical supplies to support the fight against the pandemic. In February 2020, Akeso, Inc. donated hundreds of medical protective clothing to frontline healthcare professionals in medical institutions, including Guangdong Provincial People's Hospital, Affiliated Cancer Hospital and Institute of Guangzhou Medical University and Sun Yat-Sen University Cancer Center, to support the anti-pandemic work.

Picture: Dr. Li Baiyong and Dr. Wang Zhongmin Maxwell donate medical supplies on behalf of the Company.

8. APPENDIX: CONTENT INDEX OF STOCK EXCHANGE ESG REPORTING GUIDE

This report is prepared in accordance with the ESG Reporting Guide of the Stock Exchange. The table below sets forth the response of this report to the general disclosure and key performance indicators set out in the ESG Reporting Guide.

Subject Areas, General Disclosures and Key Performance Indicators of ESG			Section
Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Sustainable Operation
	A1.1	The types of emissions and respective emissions data.	Sustainable Operation
	A1.2	Greenhouse gas emissions (in tonnes) and, where appropriate, intensity.	Sustainable Operation
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity	Sustainable Operation
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity	Sustainable Operation
	A1.5	Description of steps taken to reduce emission and results.	Sustainable Operation
	A1.6	Description of how hazardous and non-hazardous wastes are handled, steps taken to reduce production and results.	Sustainable Operation

Subject Areas, General Disclosures and Key Performance Indicators of ESG			Section
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Sustainable Operation
	A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Sustainable Operation
	A2.2	Water consumption in total and intensity.	Sustainable Operation
	A2.3	Description of steps taken to use energy effectively and results.	Sustainable Operation
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, steps taken to use water effectively and results.	Sustainable Operation
	A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Sustainable Operation
A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	Sustainable Operation
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Sustainable Operation
Social			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment Responsibilities
	B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment Responsibilities
	B1.2	Employee turnover rate by gender, age group and geographical region.	Employment Responsibilities

Subject Areas, General Disclosures and Key Performance Indicators of ESG			Section
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employment Responsibilities
	B2.1	Number and rate of work-related fatalities occurred.	Employment Responsibilities
	B2.2	Lost days due to work injury.	Employment Responsibilities
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Employment Responsibilities
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employment Responsibilities
	B3.1	The percentage of employees trained by gender and employee category.	Employment Responsibilities
	B3.2	The average training hours completed per employee by gender and employee category.	Employment Responsibilities
B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment Responsibilities
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	Employment Responsibilities
	B4.2	Description of steps taken to eliminate such practices when discovered.	Employment Responsibilities

Subject Areas, General Disclosures and Key Performance Indicators of ESG			Section
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Compliance Operations
	B5.1	Number of suppliers by geographical region.	Compliance Operations
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Compliance Operations
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility
	B6.2	Number of products and service related complaints received and how they are dealt with.	Not applicable
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility
	B6.4	Description of quality assurance process and recall procedures.	Product Responsibility
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Not applicable

Subject Areas, General Disclosures and Key Performance Indicators of ESG			Section
B7: Anticorruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Compliance Operations
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Compliance Operations
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Compliance Operations
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Responsibility for Community
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Responsibility for Community
	B8.2	Resources contributed (e.g. money or time) to the focus area.	Responsibility for Community

INDEPENDENT AUDITOR'S REPORT

EY安永

To the shareholders of Akeso, Inc. 康方生物科技(開曼)有限公司
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Akeso, Inc. 康方生物科技(開曼)有限公司 (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 120 to 199, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Cut-off of research and development expenses	
The Group incurred significant research and development ("**R&D**") expenses of RMB768.6 million as disclosed in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020, which mainly consisted of staff costs, clinical trial expenses and service fee paid to outsourced service providers. The research and development activities with these service providers are documented in detailed agreements and typically performed over an extended period. Allocation of these R&D expenses to the appropriate reporting period based on the progress of the research and develop projects involves judgement. The Group's disclosure about R&D expenses is included in note 2.5 *Summary of significant accounting policies*.	We obtained an understanding of and evaluated the key controls over the R&D expenses process; We inquired management about the reasons for periodical fluctuations in R&D expenses and assessed the reasonableness of those fluctuations; We reviewed the key terms set out in agreements with outsourced service providers. We evaluated the progress of the R&D projects based on the inspection of supporting documents on a sample basis; We reviewed the R&D expenses payments and other supporting documents in both current and subsequent periods, in order to determine completeness and cut-off of the R&D expenses.

Other information included in the Annual Report

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hui Kin Fai, Stephen.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

31 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	—	70,879
Cost of sales		—	—
Gross profit		—	70,879
Other income and gains, net	5	123,524	50,186
Administrative expenses		(253,029)	(55,421)
Research and development expenses		(768,589)	(308,388)
Other expenses, net		(2,077)	(592)
Fair value changes on convertible redeemable preferred shares	24	(412,421)	(97,382)
Finance costs	7	(7,987)	(5,736)
LOSS BEFORE TAX	6	(1,320,579)	(346,454)
Income tax expense	10	—	—
LOSS FOR THE YEAR		(1,320,579)	(346,454)
OTHER COMPREHENSIVE LOSS			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		70,613	6,128
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		(302,550)	(8,195)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(231,937)	(2,067)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,552,516)	(348,521)

Year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Loss attributable to:			
Owners of the parent		**(1,177,051)**	(335,386)
Non-controlling interests		**(143,528)**	(11,068)
		(1,320,579)	(346,454)
Total comprehensive loss attributable to:			
Owners of the parent		**(1,408,988)**	(337,453)
Non-controlling interests		**(143,528)**	(11,068)
		(1,552,516)	(348,521)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB(1.65) yuan**	RMB(2.74) yuan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**608,251**	214,005
Right-of-use assets	14(a)	**150,916**	52,405
Intangible assets	15	**1,230**	500
Advance payments for acquisition of land use rights	14(a)	**—**	99,263
Advance payments for property, plant and equipment		**94,446**	50,802
Total non-current assets		**854,843**	416,975
CURRENT ASSETS			
Inventories	16	**61,235**	15,523
Prepayments, other receivables and other assets	17	**143,639**	51,362
Financial assets at fair value through profit or loss	18	**110,000**	772
Pledged deposits	19	**1,953**	2,263
Cash and cash equivalents	19	**2,684,499**	1,186,044
Total current assets		**3,001,326**	1,255,964
CURRENT LIABILITIES			
Trade payables	20	**112,607**	42,923
Other payables and accruals	21	**39,567**	34,459
Interest-bearing bank and other borrowings	22	**13,811**	38,095
Lease liabilities	14(b)	**2,864**	2,859
Tax payable		**1,122**	1,425
Total current liabilities		**169,971**	119,761
NET CURRENT ASSETS		**2,831,355**	1,136,203
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,686,198**	1,553,178

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Convertible redeemable preferred shares	*24*	**—**	1,099,563
Interest-bearing bank and other borrowings	*22*	**178,614**	173,280
Lease liabilities	*14(b)*	**3,702**	4,481
Deferred income	*23*	**53,443**	60,149
Total non-current liabilities		**235,759**	1,337,473
Net assets		**3,450,439**	215,705
EQUITY			
Equity attributable to owners of the parent			
Share capital	*25*	**55**	34
Reserves	*27*	**3,185,491**	(6,387)
		3,185,546	(6,353)
Non-controlling interests		**264,893**	222,058
Total equity		**3,450,439**	215,705

Dr. XIA Yu
Director

Dr. LI Baiyong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent						
	Share capital *RMB'000* *Note 25*	Capital reserve* *RMB'000* *Note 27*	Exchange fluctuation reserve* *RMB'000* *Note 27*	Accumulated losses* *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2019	—	600,946	2,171	(161,901)	441,216	46,879	488,095
Loss for the year	—	—	—	(335,386)	(335,386)	(11,068)	(346,454)
Other comprehensive loss for the year:							
Exchange differences on translation of foreign operations	—	—	6,128	—	6,128	—	6,128
Translation from functional currency to presentation currency	—	—	(8,195)	—	(8,195)	—	(8,195)
Total comprehensive loss for the year	—	—	(2,067)	(335,386)	(337,453)	(11,068)	(348,521)
Issue of shares	36	321,053	—	—	321,089	—	321,089
Capital injection from shareholders	—	50,000	—	—	50,000	—	50,000
Re-designated and reclassified as preferred shares	(2)	(278,112)	—	—	(278,114)	—	(278,114)
Equity component of the Series B Preferred Shares I *(note 22(d))*	—	92,213	—	—	92,213	—	92,213
Reorganisation	—	(321,089)	—	—	(321,089)	—	(321,089)
Capital injection from non-controlling shareholders of subsidiaries	—	25,785	—	—	25,785	186,247	212,032
At 31 December 2019	34	490,796	104	(497,287)	(6,353)	222,058	215,705

Year ended 31 December 2020

	Attributable to owners of the parents								
	Share capital RMB'000 Note 25	Share premium* RMB'000 Note 25	Capital reserve* RMB'000 Note 27	Share award reserve* RMB'000 Note 26	Exchange fluctuation reserve* RMB'000 Note 27	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	34	–	490,796	–	104	(497,287)	(6,353)	222,058	215,705
Loss for the year	–	–	–	–	–	(1,177,051)	(1,177,051)	(143,528)	(1,320,579)
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	70,613	–	70,613	–	70,613
Translation from functional currency to presentation currency	–	–	–	–	(302,550)	–	(302,550)	–	(302,550)
Total comprehensive loss for the year	–	–	–	–	(231,937)	(1,177,051)	(1,408,988)	(143,528)	(1,552,516)
Issue of shares	13	2,714,517	–	–	–	–	2,714,530	–	2,714,530
Share issue expenses	–	(82,918)	–	–	–	–	(82,918)	–	(82,918)
Conversion of preferred shares into ordinary shares**	8	–	1,596,116	–	–	–	1,596,124	–	1,596,124
Equity-settled share award	–	–	–	347,151	–	–	347,151	–	347,151
Capital injection from a non-controlling shareholder of a subsidiary	–	–	26,000	–	–	–	26,000	186,363	212,363
At 31 December 2020	55	2,631,599	2,112,912	347,151	(231,833)	(1,674,338)	3,185,546	264,893	3,450,439

* These reserve accounts comprise the consolidated reserves of RMB3,185,491,000 (2019: RMB(6,387,000)) in the consolidated statement of financial position.

** All preferred shares were converted into ordinary shares upon the completion of the initial public offering (the "**IPO**") of the Company as detailed in notes 22(d), 24 and 25.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax:		**(1,320,579)**	(346,454)
Adjustments for:			
Bank and other interest income	5	**(41,528)**	(5,217)
Fair value changes on convertible redeemable preferred shares	24	**412,421**	97,382
Loss upon early termination of a lease	6	**65**	—
Covid-19-related rent concessions from lessors	14	**(54)**	—
Depreciation of property, plant and equipment	6	**15,627**	13,419
Depreciation of right-of-use assets	6	**6,030**	2,964
Amortisation of intangible assets	6	**450**	109
Net changes in fair value of financial assets at fair value through profit or loss		**—**	110
Government grant released	5	**(69,195)**	(36,972)
Foreign exchange differences, net	6	**(12,526)**	586
Equity-settled share award expenses	6	**347,151**	—
Finance costs	7	**7,987**	5,736
Write-down of inventories to net realisable value	6	**1,903**	—
		(652,248)	(268,337)
(Increase)/decrease in inventories		**(47,615)**	1,446
Increase in prepayments, other receivables and other assets		**(96,525)**	(24,500)
Increase/(decrease) in trade payables		**69,684**	(4,426)
Increase in other payables and accruals		**12,262**	24,292
Increase in deferred income in respect of government grants related to income		**60,812**	50,567
Cash used in operations		**(653,630)**	(220,958)
Bank interest received		**35,855**	1,666
Income tax paid		**—**	(303)
Net cash flows used in operating activities		**(617,775)**	(219,595)

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(444,262)**	(136,273)
Purchase of intangible assets		**(1,180)**	(412)
Advance payments for acquisition of land use rights		**—**	(99,263)
Purchases of land use rights		**(3,028)**	—
Proceeds from disposal of items of property, plant and equipment		**9**	—
Receipt of government grants related to assets		**1,677**	7,677
Purchases of financial assets at fair value through profit or loss		**(1,856,691)**	(1,365,767)
Proceeds from disposal of financial assets at fair value through profit or loss		**1,741,790**	1,465,000
Interest income from financial assets at fair value through profit or loss		**5,673**	3,309
(Increase)/decrease in pledged deposits		**313**	(2,165)
Net cash flows used in investing activities		**(555,699)**	(127,894)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**180,042**	111,600
Repayment of bank and other borrowings		**(143,122)**	(25,900)
Share issue expenses		**(78,670)**	—
Proceeds from issue of shares		**2,714,530**	318,832
Principal portion of capital element of lease payments		**(3,391)**	(2,005)
Capital injection from non-controlling shareholders of subsidiaries		**212,363**	212,032
Capital injection from shareholders		**—**	50,000
Payment for Reorganisation		**—**	(318,832)
Proceeds from issue of convertible redeemable preferred shares		**—**	888,506
Interest paid		**(3,429)**	(4,041)
Net cash flows from financing activities		**2,878,323**	1,230,192
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,704,849**	882,703
Cash and cash equivalents at beginning of year		**1,186,029**	313,701
Effect of foreign exchange rate changes, net		**(206,379)**	(10,375)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,684,499**	1,186,029
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	*19*	**2,684,499**	1,186,044
Bank overdrafts	*22*	**—**	(15)
Cash and cash equivalents as stated in the statement of cash flows		**2,684,499**	1,186,029

31 December 2020

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 January 2019. The address of the registered office of the Company is Floor 4, Willow House, Cricket Square, Grand Cayman KY1–9010, Cayman Islands. The Company's principal place of business in Hong Kong is Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company is an investment holding company. The Company's subsidiaries were involved in research and development of biological products.

The shares of the Company were listed on the Main Board of the Stock Exchange on 24 April 2020.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Akeso (BVI), Inc.	British Virgin Islands ("**BVI**")	US$50,000	100%	—	Investment holding
Akeso Biopharma Co., Ltd. * (中山康方生物醫藥有限公司) *(note (b))*	People's Republic of China ("**PRC**")/ Mainland China	RMB2,000,000,000	—	100%	Product research and development, technology transfer and consulting services business
Akeso Pharma Co., Ltd. * ("**Akeso Pharma**") (康方藥業有限公司)	PRC/Mainland China	RMB100,000,000	—	95%	Product research and development
Akeso Tiancheng Guangdong Co., Ltd. * (康方天成(廣東)製藥有限公司) *(note (b))*	PRC/Mainland China	RMB200,000,000	—	100%	Product research and development, technology transfer and consulting service business
Zhong Kang Tai He Beijing Bioscience Co., Ltd.* (中康泰和(北京)生物科技有限公司)	PRC/Mainland China	RMB1,000,000	—	51%	Product research and development
AD Pharmaceuticals Co., Ltd.* (康融東方(廣東)醫藥有限公司)	PRC/Mainland China	RMB143,800,000	—	65%	Product research and development
AD Pharmaceuticals Guangzhou Co., Ltd.* (康融東方(廣州)生物醫藥有限公司) *(note (b))*	PRC/Mainland China	RMB1,000,000	—	65%	Product research and development
AkesoBio Inc.	United States of America (the "**USA**")	US$333,000	—	100%	Product research and development

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Akesobio Australia Pty Ltd.	Australia	Australian Dollar ("**AUD**") 8,028,086	—	100%	Product research and development
Akeso Limited	Hong Kong	Hong Kong Dollar ("**HKD**") 2,560,000	—	100%	Investment holding
Akeso-Sino Pharma Co., Ltd.* (康方賽諾醫藥有限公司) *(note (b))*	PRC/Mainland China	RMB500,000,000	—	100%	Product research and development
Akeso Bioscience Co., Ltd.* (中山康方生物科技有限公司) *(notes (a) and (b))*	PRC/Mainland China	RMB50,000,000	—	100%	Product research and development
Akeso Research and Development Institute Co., Ltd.* (中山康方創新藥物研究院有限公司) *(note (b))*	PRC/Mainland China	RMB4,000,000	—	100%	Product research and development, technology transfer and consulting services
CTTQ-Akeso (Shanghai) Biomed. Tech. Co., Ltd. * ("**CTTQ-Akeso**") (正大天晴康方(上海)生物醫藥科技有限公司)	PRC/Mainland China	RMB689,450,000	—	50%	Product research and development, technology transfer, and consulting services of biopharmaceuticals (except biological agents)
Akeso Longyue (Guangdong) Tech. Co., Ltd. * (康方隆躍(廣東)科技有限公司) *(note (b))*	PRC/Mainland China	RMB100,000,000	—	100%	Product research and development

Notes:

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

(b) The registered capital of Akeso Biopharma Co., Ltd., Akeso Tiancheng Guangdong Co., Ltd., AD Pharmaceuticals Guangzhou Co., Ltd., Akeso-Sino Pharma Co., Ltd., Akeso Bioscience Co., Ltd., Akeso Research and Development Institute Co., Ltd. and Akeso Longyue (Guangdong) Tech. Co., Ltd. of approximately RMB164,431,175, RMB130,000,000, RMB1,000,000, RMB150,000,000, RMB50,000,000, RMB4,000,000 and RMB100,000,000, respectively, was unpaid as at 31 December 2020.

* The English names of these companies represent the best effort made by the directors of the Company (the "**Directors**") to translate the Chinese names as these companies have not been registered with any official English names.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed "Reorganisation" in the section headed "History, Development and Corporate Structure" in the prospectus of the Company dated 14 April 2020 (the "Prospectus"), the Company became the holding company of the companies now comprising the Group on 20 September 2019.

As the Reorganisation mainly involved inserting new holding companies and has not resulted in any change of economic substance, the financial statements for the reporting period have been presented as a continuation of the existing companies using the pooling of interest method as if the Reorganisation had been completed at the beginning of the reporting periods.

Accordingly, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the reporting period include the consolidated results and cash flows of Akeso Biopharma Co., Ltd. and its subsidiaries and the results and cash flows of the other companies now comprising the Group as if the current group structure had been in existence throughout the reporting period. The consolidated statements of financial position of the Group as at the end of the reporting period include the consolidated assets and liabilities of Akeso Biopharma Co., Ltd. and its subsidiaries and the assets and liabilities of the other companies now comprising the Group as if the current group structure had been in existence throughout the reporting periods. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.2 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IAS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to IFRS 1 and IAS 8	*Definition of Material*

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's plant and machinery have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB54,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform — Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3, 5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 1	*Disclosure of Accounting Policies*[3]
Amendments to IAS 8	*Definition of Accounting Estimates*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRS Standards 2018–2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021

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

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

4 No mandatory effective date yet determined but available for adoption

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

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

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividend received and receivable.

Business combinations

Other than the Reorganisation, business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

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

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

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies: (Continued)

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

Leasehold improvements	20% to 50%
Machinery and equipment	9% to 18%
Office equipment	9% to 18%
Motor vehicles	18%
Buildings	4.5%

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Intangible assets (other than goodwill)

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

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

The useful lives of the software were assessed by the Group considering different purposes and usage of the software. The useful lives of software varied from 5 to 10 years depending on the management's plan on the usage and upgrade frequency of the respective software.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

Leasehold land	50 years
Plant and buildings	2 to 24 years
Machinery	10 years

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

(b) Lease liabilities

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease liabilities (Continued)

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

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery, office and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

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

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

General approach

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

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

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings, convertible redeemable preferred shares and lease liabilities.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss

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

Compound financial liabilities

The component of compound financial liabilities that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of compound financial liabilities, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

The Group generated revenue from licences of its intellectual property ("**IP**") to customers. Customers would use commercially reasonable efforts to develop and commercialise those IP and would bear the costs of development, manufacturing and commercialisation. The Group was entitled to consideration of upfront payments, future clinical development milestone payments and sales milestone payments. Upfront payments and future clinical development milestone payments were fixed and became receivable upon each milestone, i.e. grant of IP or achievement of development specified in the licensing contract. Sales milestone payments were based on future sales of the relevant products by customers.

At the inception of each licensing contract, the Group evaluates whether the upfront payments and future clinical development milestone payments are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. Upfront payments and future clinical development milestone payments that are not within the control of the Group are not considered probable of being achieved until those milestones are achieved. At the end of each subsequent reporting period, the Group re-evaluates the probability of achievement of all milestones subject to constraint and, if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catchup basis, which would affect revenues and earnings in the period of adjustment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

For the licensing contracts in which the Group will not undertake any activities that significantly affect the IP, the customer gets a right to use the IP when the licence is granted. The Group recognises revenue at the amount estimated as above when the customer obtains the right to use the IP.

Sales milestone payments are regarded as sales-based royalties and recognised as revenue only when the subsequent sale of relevant product by customer occurs.

Other income from provision of services

The Group recognises income from provision of services only when it satisfies a performance obligation by transferring control of the promised services. The transfer of control can occur over time or at a point in time. A performance obligation is satisfied over time if it meets one of the following criteria.

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

The portion of the transaction price that is allocated to services satisfied at a point in time is recognised as income when control of the services transfers to the counterparty. If the services are satisfied over time, the portion of the transaction price allocated to that services is recognised as income as the services are satisfied. The Group adopts an appropriate method of measuring progress for purposes of recognising income from provision of services. The Group evaluates the measure of progress at the end of each reporting period and, if necessary, adjusts the measure of performance and related income recognised.

Interest income

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an option pricing model, further details of which are given in note 26 to the financial statements.

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

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

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

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

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. The functional currency of the Company is the United States Dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the year.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Judgements (Continued)

Recognition of revenue from customers

In determining the timing of recognition of revenue from licences of IP, the Group must use judgement to determine the nature of its promise in granting a licence. The Group's promise is to provide a right to access the IP if all of the following criteria are met: (a) the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the IP to which the customer has rights; (b) the rights granted by the licence directly expose the customer to any positive or negative effects of the Group's activities identified in (a); and (c) those activities do not result in the transfer of a good or a service to the customer as those activities occur. If the licensed IP does not have those characteristics, the licensing contract provides a right to use this IP. Based on the nature of the licensing contracts, the Group considered that it would not undertake any activities that significantly affect the IP thus concluded that all the licensing contracts during the reporting period provided customer a right to use the IP.

At the inception of each licensing contract and the end of each subsequent reporting period, the Group evaluates whether the future clinical development milestone payments are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. The Group evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone of development in making this assessment. There is considerable judgement involved in determining whether it is probable that a significant reversal of cumulative revenue would not occur. During the reporting period, the Group considered the nature of the milestone of development and concluded that future clinical development milestone payments were not within the control of the Group thus were not considered probable of being achieved until those milestones were achieved.

Consolidation of entities in which the Group holds less than a majority of voting rights

CTTQ-Akeso was established in Mainland China on 30 August 2019 with 50% of equity shares held by the Group and 50% by a third party respectively. The Group considers that it controls CTTQ-Akeso even though it owns only 50% of the voting rights. This is because the Group had existing rights that gave it the unilateral ability to direct the research and development activities of CTTQ-Akeso, which were the relevant activities that most significantly affected the returns of CTTQ-Akeso in the current stage.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Estimation uncertainty (Continued)

Recognition of income taxes and deferred tax assets

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

Impairment of non-financial assets

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

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected us age of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. The depreciation amount will be adjusted if the estimated useful life and/or the residual value of an item of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. Further details are included in note 2.5 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Estimation uncertainty (Continued)

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made for those identified obsolete and slow-moving inventories and inventories with a carrying amount higher than net realisable value. The assessment of the provision required involves management's judgement and estimates on which are influenced by assumptions concerning future sales and usage and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. Further details are included in note 6 to the financial statements.

Leases — Estimating the incremental borrowing rate

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

Fair value of financial assets and financial liabilities at fair value through profit or loss

Certain financial assets and financial liabilities are measured at fair value at the end of each reporting period, respectively.

Fair value of financial assets, i.e. investments in financial products, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations are based on certain assumptions about future cash flows, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. The fair value of financial assets at fair value through profit or loss at 31 December 2020 amounted to RMB110,000,000 (2019: RMB722,000). Further details are included in note 18 to the financial statements.

The convertible redeemable preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value of the Company and adopted the option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Such valuation is based on certain assumptions about discounts for lack of marketability and volatility, which are subject to uncertainty and might materially differ from the actual results. Further details are included in note 24 to the financial statements.

4. OPERATING SEGMENT INFORMATION

Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decision about resources allocation and preformation assessment.

Geographical information

(a) Revenue from external customers

	2020 RMB'000	2019 RMB'000
USA	—	70,879

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

(b) Non-current assets

	2020 RMB'000	2019 RMB'000
Mainland China	852,780	416,840
Hong Kong	1,930	—
USA	102	135
Other countries/regions	31	—
	854,843	416,975

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

Information about a major customer

	2020 RMB'000	2019 RMB'000
Customer A	—	70,879

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

Revenue

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers:		
Revenue from licencing fee income	—	70,879

5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

	2020 RMB'000	2019 RMB'000
Timing of revenue recognition:		
Transferred at a point in time	—	70,879

Revenue recognised from performance obligations satisfied in previous periods.

	2020 RMB'000	2019 RMB'000
Licensing fee income not previously recognised due to constrains on variable consideration	—	70,879

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Revenue from licencing fee income

The performance obligation is satisfied at a point in time when the customer obtains the rights to the underlying technology.

Other income and gains, net

	2020 RMB'000	2019 RMB'000
Bank and other interest income	41,528	5,217
Government grant released*	69,195	36,972
Net income from lab testing services	273	8,098
Foreign exchange differences, net	12,526	—
Others	2	(101)
	123,524	50,186

* The government grants mainly represent subsidies received from the local governments for the purpose of compensation for expenses arising from research activities and clinical trials, award for new drug development and capital expenditure incurred on certain projects.

6. LOSS BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**97,588**	41,833
Pension scheme contributions		**6,414**	7,510
Equity-settled share award expenses		**347,151**	—
		451,153	49,343
Depreciation of property, plant and equipment	*13*	**15,627**	13,419
Depreciation of right-of-use assets	*14*	**6,030**	2,964
Amortisation of intangible assets*	*15*	**450**	109
Lease payments not included in the measurement of lease liabilities		**1,380**	171
Loss upon early termination of a lease**		**65**	—
Auditor's remuneration		**1,683**	339
Listing expenses		**45,492**	12,928
Foreign exchange differences, net***		**(12,526)**	586
Write-down of inventories to net realisable value**		**1,903**	—

* Included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income

** Included in "Other expenses, net" in the consolidated statement of profit or loss and other comprehensive income

*** Included in "Other income and gains, net" (2019: "Other expenses, net") in the consolidated statement of profit or loss and other comprehensive income

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Finance cost on lease liabilities	356	385
Interest on bank and other borrowings	16,904	7,049
Total interest expense on financial liabilities not at fair value through profit or loss	17,260	7,434
Less: Interest capitalised *(note 13)*	(9,273)	(1,698)
	7,987	5,736

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Dr. XIA Yu, Dr. LI Baiyong, Dr. WANG Zhongmin Maxwell and Mr. XIA Yu (Ph.D.) were re-designated as executive directors of the Company on 16 November 2019.

Mr. LIN Lijun and Dr. ZHOU Yi were re-designated as non-executive directors of the Company on 16 November 2019. Mr LIN Lijun resigned as a non-executive director of the Company on 19 August 2020. Mr. XIE Ronggang was appointed as a non-executive director of the Company on 19 August 2020.

Mr. TAN Bo, Dr. ZENG Junwen and Dr. XU Yan were appointed as independent non-executive directors on 7 April 2020.

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

	2020 RMB'000	2019 RMB'000
Fees	640	—
Other emoluments:		
Salaries, allowances and benefits in kind	8,826	4,084
Performance related bonuses	9,163	4,000
Pension scheme contributions	—*	18
	17,989	8,102
	18,629	8,102

* Less than RMB1,000

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

(a) Independent non-executive directors

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

	2020 RMB'000	2019 RMB'000
Mr. TAN Bo	213	—
Dr. ZENG Junwen	214	—
Dr. XU Yan	213	—
	640	—

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020					
Executive directors:					
Dr. XIA Yu (Chief executive)	—	2,770	4,039	—*	6,809
Dr. LI Baiyong	—	2,314	1,775	—*	4,089
Dr. WANG Zhongmin Maxwell	—	1,870	1,413	—*	3,283
Mr. XIA Yu (Ph.D.)	—	1,872	1,936	—*	3,808
	—	8,826	9,163	—*	17,989
Non-executive directors:					
Mr. LIN Lijun	—	—	—	—	—
Mr. XIE Ronggang	—	—	—	—	—
Dr. ZHOU Yi	—	—	—	—	—
	—	—	—	—	—
	—	8,826	9,163	—*	17,989

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

(b) Executive directors, a non-executive director and the chief executive (Continued)

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2019					
Executive directors:					
Dr. XIA Yu (Chief executive)	—	1,170	1,147	4	2,321
Dr. LI Baiyong	—	1,083	1,061	4	2,148
Dr. WANG Zhongmin Maxwell	—	903	884	5	1,792
Mr. XIA Yu (Ph.D.)	—	928	908	5	1,841
	—	4,084	4,000	18	8,102
Non-executive directors:					
Mr. LIN Lijun	—	—	—	—	—
Dr. ZHOU Yi	—	—	—	—	—
	—	—	—	—	—
	—	4,084	4,000	18	8,102

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

* Less than RMB1,000

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors and the chief executive (2019: four directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2019: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2020 *RMB'000*	2019 *RMB'000*
Salaries, allowances and benefits in kind	**2,078**	1,106
Performance related bonuses	**608**	967
Pension scheme contributions	**2**	—
	2,688	2,073

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

	Number of employees	
	2020	2019
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$2,000,000	**—**	—
HK$2,000,001 to HK$3,000,000	**—**	1
HK$3,000,001 to HK$4,000,000	**1**	—
	1	1

10. INCOME TAX

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

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands or the BVI.

The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at the rate of 16.5% on any estimated assessable profits arising in Hong Kong during the reporting period. No provision for Hong Kong profits tax has been made as the Group has no assessable profits derived from or earned in Hong Kong during the year.

The provision for corporate income tax in Mainland China is based on the statutory rate of 25% of the assessable profits are determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 except for Akeso Biopharma Co., Ltd. which was qualified as a High and New Technology Enterprise and was subject to a preferential income tax rate of 15% for the year.

10. INCOME TAX (Continued)

The subsidiary incorporated in the USA is subject to American federal and California income tax. America federal income tax was provided at the rate of 21% during the reporting period and California income tax was provided at the rate of 8.84% during the year on the estimated assessable profits arising in the USA.

The subsidiary incorporated in the Australia is subject to Australia income taxes. Australia corporate income tax has been provided at the rate of 30% on the estimated assessable profits arising in Australia.

The income tax expense of the Group is analysed as follows:

	2020 *RMB'000*	2019 *RMB'000*
Current		
Charge for the year	—	—
Deferred	—	—
Total tax charge for the year	—	—

A reconciliation of the tax expense applicable to loss before tax at the statutory rate for the jurisdiction in which the Group's major operating activities are domiciled to the tax expense at the effective tax rate is as follows:

2020

	Mainland China *RMB'000*	Others *RMB'000*	Total *RMB'000*
Loss before tax	**(422,931)**	**(897,648)**	**(1,320,579)**
Tax at the statutory tax rate	**(105,733)**	**(32,054)**	**(137,787)**
Lower tax rates enacted by local authority	**(1,088)**	**—**	**(1,088)**
Effect of research and development expenses that are additionally deducted *(note)*	**(153,868)**	**—**	**(153,868)**
Income not subject to tax	**—**	**(102)**	**(102)**
Expenses not deductible for tax	**1,200**	**—**	**1,200**
Unrecognised deductible temporary differences and tax losses	**259,489**	**32,156**	**291,645**
Tax charge at the Group's effective rate	**—**	**—**	**—**

10. INCOME TAX (Continued)

2019

	Mainland China *RMB'000*	Others *RMB'000*	Total *RMB'000*
Loss before tax	(195,075)	(151,379)	(346,454)
Tax at the statutory tax rate	(48,769)	(12,620)	(61,389)
Lower tax rates enacted by local authority	2,278	—	2,278
Effect of research and development expenses that are additionally deducted *(note)*	(11,077)	—	(11,077)
Income not subject to tax	—	(2,453)	(2,453)
Expenses not deductible for tax	995	143	1,138
Tax losses utilised from previous periods	—	(32)	(32)
Unrecognised deductible temporary differences and tax losses	56,573	14,962	71,535
Tax charge at the Group's effective rate	—	—	—

Note: Pursuant to Caishui [2017] circular No. 34, Akeso Biopharma Co., Ltd. enjoyed super deduction of 175% of qualifying research and development expenditures during the reporting period.

The Group has tax losses in Mainland China of RMB1,629,065,000 (2019: RMB457,415,000) that will expire in one to ten years for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses in the USA and Australia of RMB208,353,000 (2019: RMB98,467,000) in aggregate that will be carried forward indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits in foreseeable future will be available against which the tax losses can be utilised.

11. DIVIDENDS

No dividend has been paid or proposed by the Company since its incorporation.

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

The calculation of basic loss per share is based on the loss for the year attributable to equity holders of the parent, and the weighted average number of shares of 628,941,610 (2019: 102,970,363) in issue during the year.

As the Group incurred losses, no adjustment has been made to the basic loss per share amounts presented in respect of a dilution as the impact of the conversion of the convertible redeemable preferred shares had an anti-dilutive effect on the basic loss per share amounts presented. Accordingly, the dilutive loss per share amounts for the years ended 31 December 2020 and 2019 are the same as the basic loss per share amounts.

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

	2020	2019
	RMB'000	*RMB'000*
Loss		
Loss attributable to owners of the parent	**(1,177,051)**	(335,386)
Add: Loss attributable to preferred shareholders*	**140,677**	53,624
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	**(1,036,374)**	(281,762)

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**628,941,610**	102,970,363

* Upon the completion of the IPO on 24 April 2020, all preferred shares were converted into ordinary shares.

31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 1 January 2020:							
Cost	12,816	94,035	3,170	1,387	64,589	71,899	247,896
Accumulated depreciation	(10,376)	(16,881)	(1,248)	(349)	(5,037)	–	(33,891)
Net carrying amount	2,440	77,154	1,922	1,038	59,552	71,899	214,005
At 1 January 2020, net of accumulated depreciation	2,440	77,154	1,922	1,038	59,552	71,899	214,005
Additions	7,298	34,158	3,202	316	–	355,644	400,618
Interest capitalised	–	–	–	–	–	9,273	9,273
Disposals	–	(7)	(2)	–	–	–	(9)
Depreciation provided during the year	(1,515)	(10,178)	(605)	(133)	(3,196)	–	(15,627)
Transfers	–	10,189	6	–	–	(10,195)	–
Exchange realignment	–	(9)	–	–	–	–	(9)
At 31 December 2020, net of accumulated depreciation	8,223	111,307	4,523	1,221	56,356	426,621	608,251
At 31 December 2020:							
Cost	20,114	138,331	6,358	1,703	64,589	426,621	657,716
Accumulated depreciation	(11,891)	(27,024)	(1,835)	(482)	(8,233)	–	(49,465)
Net carrying amount	8,223	111,307	4,523	1,221	56,356	426,621	608,251

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements *RMB'000*	Machinery and equipment *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Buildings *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2019							
At 1 January 2019:							
Cost	11,627	77,043	2,002	1,135	64,464	1,546	157,817
Accumulated depreciation	(8,500)	(8,912)	(950)	(247)	(1,863)	—	(20,472)
Net carrying amount	3,127	68,131	1,052	888	62,601	1,546	137,345
At 1 January 2019, net of accumulated depreciation	3,127	68,131	1,052	888	62,601	1,546	137,345
Additions	1,189	16,994	1,168	252	125	68,655	88,383
Interest capitalised	—	—	—	—	—	1,698	1,698
Depreciation provided during the year	(1,876)	(7,969)	(298)	(102)	(3,174)	—	(13,419)
Exchange realignment	—	(2)	—	—	—	—	(2)
At 31 December 2019, net of accumulated depreciation	2,440	77,154	1,922	1,038	59,552	71,899	214,005
At 31 December 2019:							
Cost	12,816	94,035	3,170	1,387	64,589	71,899	247,896
Accumulated depreciation	(10,376)	(16,881)	(1,248)	(349)	(5,037)	—	(33,891)
Net carrying amount	2,440	77,154	1,922	1,038	59,552	71,899	214,005

The Group's buildings with a net carrying amount of RMB56,356,000 (2019: RMB59,552,000) were pledged to secure bank loans and other borrowings (note 22(a)). Certain of the Group's construction in progress with a net carrying amount of approximately RMB69,208,000 were also pledged to secure bank loans and other borrowings as at 31 December 2019 (note 22(c)).

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and buildings, machinery and land use rights with lease terms of 2 to 50 years used in its operations. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Plant and buildings *RMB'000*	Machinery *RMB'000*	Land use rights *RMB'000*	Total *RMB'000*
At 1 January 2019	376	4,563	47,110	52,049
Additions	3,320	—	—	3,320
Depreciation charge	(950)	(1,055)	(959)	(2,964)
As at 31 December 2019 and 1 January 2020	2,746	3,508	46,151	52,405
Additions	2,908	—	102,291	105,199
Depreciation charge	(1,973)	(1,053)	(3,004)	(6,030)
Remeasurement resulting from early termination of a lease	(658)	—	—	(658)
At 31 December 2020	3,023	2,455	145,438	150,916

Balance of advance payments for acquisition of land use rights as at 31 December 2019 represented the advanced payments made by the Group for acquisition of a parcel of land in Zhongshan, which was acquired by the Group in January 2020.

At 31 December 2020, the Group's land used rights with a net carrying amount of approximately RMB100,245,000 (2019: Nil) were pledged to secure other borrowings (note 22(a)).

14. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

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

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	7,340	6,487
New leases	2,908	3,320
Accretion of interest recognised during the year	356	385
Covid-19-related rent concessions from lessors	(54)	—
Payments	(3,391)	(2,852)
Remeasurement resulting from early termination of a lease	(593)	—
Carrying amount at 31 December	6,566	7,340
Analysed into:		
Current portion	2,864	2,859
Non-current portion	3,702	4,481

The maturity analysis of lease liabilities is disclosed in note 36 to the financial statements.

As disclosed in note 2.3 to the financial statements, the Group has early adopted the amendment to IFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and buildings during the year.

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

	2020 RMB'000	2019 RMB'000
Finance cost on lease liabilities *(note b)*	356	385
Depreciation charge of right-of-use assets	6,030	2,964
Expense relating to short-term leases	1,380	171
Covid-19-related rent concessions from lessors	(54)	—
Total amount recognised in profit or loss	7,712	3,520

15. INTANGIBLE ASSETS

	Software *RMB'000*
31 December 2020	
Cost at 1 January 2020, net of accumulated amortisation	**500**
Additions	**1,180**
Amortisation provided during the year	**(450)**
At 31 December 2020	**1,230**
At 31 December 2020:	
Cost	**1,867**
Accumulated amortisation	**(637)**
Net carrying amount	**1,230**
31 December 2019	
Cost at 1 January 2019, net of accumulated amortisation	197
Additions	412
Amortisation provided during the year	(109)
At 31 December 2019	500
At 31 December 2019 and at 1 January 2020:	
Cost	687
Accumulated amortisation	(187)
Net carrying amount	500

16. INVENTORIES

	2020 *RMB'000*	2019 *RMB'000*
Raw materials	**61,235**	15,523

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 *RMB'000*	2019 *RMB'000*
Value-added tax recoverable	**96,218**	37,974
Prepayments	**42,441**	11,656
Deposits	**1,947**	1,025
Other receivables	**3,033**	707
	143,639	51,362

The balances are interest-free and are not secured with collateral.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Long ageing balances are reviewed regularly by senior management. In view of the fact that the Group's deposits and other receivables relate to a large number of diversified counterparties, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its deposits and other receivable balances.

Other receivables and deposits had no historical default, the financial assets included in the above balances were categorised in stage 1 at the end of each year. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data. During the years ended 31 December 2020 and 2019, the Group estimated that the expected loss rate for other receivables and deposits is minimal.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 *RMB'000*	2019 *RMB'000*
Investments in financial products, at fair value	**110,000**	772

The above investments represented investments in financial products which were issued by banks with expected interest rates ranging from 1.0% to 2.9% per annum. The returns on all of these financial products are not guaranteed. The fair values of the investments approximate to their costs plus expected interest.

31 December 2020

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 *RMB'000*	2019 *RMB'000*
Cash and bank balances	**2,685,734**	1,186,044
Time deposits	**718**	2,263
	2,686,452	1,188,307
Less: Pledged time deposits:		
Pledged for overdraft facilities	**—**	(98)
Restricted cash*	**(1,953)**	(2,165)
Cash and cash equivalents	**2,684,499**	1,186,044
Denominated in:		
HKD	**1,131,981**	2,906
RMB	**1,073,688**	527,936
USD	**474,785**	654,730
Others	**4,045**	472
Cash and cash equivalents	**2,684,499**	1,186,044

* The restricted cash as at 31 December 2020 and 2019 was pledged as security for the procurement of machinery and equipment as required by a supplier of the Group and for the execution of the land use right contact of a subsidiary of the Group entered into with the local authority in Mainland China during 2019.

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

20. 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:

	2020 RMB'000	2019 RMB'000
Within 3 months	98,145	41,974
3 to 6 months	6,256	840
6 months to 1 year	5,790	109
Over 1 year	2,416	—
	112,607	42,923

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

21. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Payroll payables	33,419	13,986
Accruals	428	2,937
Other tax payables	1,106	455
Receipt in advance	566	299
Other payables	4,048	16,782
	39,567	34,459

Other payables are unsecured, non-interest-bearing and repayable on demand. The carrying amounts of financial liabilities included in other payables and accruals as at the end of each reporting period approximated to their fair values due to their short-term maturities.

31 December 2020

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank overdrafts — unsecured	—	—	—	—	On demand	15
Bank loans — secured	—	—	—	4.35~4.9	2020	33,000
Current portion of long term bank loans — secured	5.23~5.39	2021	13,811	5.23~5.39	2020	5,080
			13,811			38,095
Non-current						
Bank loans — secured	5.23~5.39	2022~2028	28,614	5.23~5.39	2021~2028	31,620
Convertible loans — secured	*note (c)*	*note (c)*	150,000	*note (c)*	*note (c)*	75,000
Liability component of convertible redeemable preferred shares	—	—	—	*note (d)*	*note (d)*	66,660
			178,614			173,280
			192,425			211,375

	2020 *RMB'000*	2019 *RMB'000*
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	13,811	38,095
In the second year	6,860	13,760
In the third to fifth years, inclusive	15,754	10,860
Beyond five years	6,000	7,000
	42,425	69,715
Other borrowings repayable:		
In the third to fifth years, inclusive	150,000	141,660
	192,425	211,375

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) mortgages over certain intellectual property of the Group, which have a net carrying value of nil at of 31 December 2019. Such mortgages were released as the loan agreement expired during the year ended 31 December 2020;

(ii) mortgages over buildings of the Group, which had net carrying values at the end of the reporting period of approximately RMB56,356,000 (2019: RMB59,552,000);

(iii) mortgages over land use rights of the Group, which had net carrying values at the end of the reporting period of approximately RMB100,245,000 (2019: Nil).

(b) Certain directors of the Company provided guarantees to a subsidiary of the Group in respect of banking facilities of RMB220,000,000 (2019: RMB260,000,000) of which RMB214,130,000 (2019: RMB216,800,000) were outstanding under these banking facilities as at 31 December 2020 and 2019, respectively.

(c) On 23 July 2019, a subsidiary of the Group entered into a convertible loan agreement with its non-controlling shareholder and borrowed a convertible loan amounting to RMB75,000,000. The subsidiary further borrowed convertible loans of an aggregate amount of RMB75,000,000 under the agreement during the year ended 31 December 2020. According to the loan agreement, the convertible loans bear interest at 6.5% per annum and are secured by the equity interest in the subsidiary held by the Group as at 31 December 2020 and 2019. The convertible loans were also secured by the construction in progress of the subsidiary with a net carrying amount of approximately RMB69,208,000 as at 31 December 2019, which were released as the mortgage agreement expired during the year ended 31 December 2020. The convertible loans are due on 31 December 2023. Under the loan agreement, an option (the "**Convertible Right**") to convert the unpaid principal and the related interest into ordinary shares of the subsidiary will be granted to its non-controlling shareholder under certain conditions. The fair value of the Convertible Right was assessed to be minimal as at 31 December 2020 and 2019.

(d) As detailed in notes 24 and 25 to the financial statements, the Series B Preferred Shares I which were re-designated and reclassified from ordinary shares during the year ended 31 December 2019 have been split into the liability and equity components. Series B Preferred Shares I was converted into ordinary shares upon the completion of the IPO of the Company on 24 April 2020.

	2020 *RMB'000*	2019 *RMB'000*
Fair value of the Series B Preferred Shares I reclassified from ordinary shares	**158,873**	157,143
Equity component	**(92,213)**	(92,213)
Liability component at the beginning of year	**66,660**	64,930
Interest expense (effective interest rate of 20.4%)	**4,151**	2,157
Conversion into ordinary shares upon the completion of the IPO	**(71,409)**	—
Currency translation differences	**598**	(427)
Liability component at the end of year	**—**	66,660

(e) Except for overdraft and the liability component of convertible redeemable preferred shares which were denominated in United States dollars, all borrowings were denominated in RMB.

23. DEFERRED INCOME

	2020 RMB'000	2019 RMB'000
Government grant	53,443	60,149

The movements in deferred income for the reporting periods are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	60,149	39,332
Grants received during the year	63,739	44,424
Unutilised fund returned to government	(1,250)	—
Amount released	(69,195)	(23,607)
At end of year	53,443	60,149

The grants are related to the subsidies received from the government for the purpose of compensation for expenses arising from research activities and clinical trials, award for the new drug development and capital expenditure incurred on certain projects.

24. PREFERRED SHARES

All preferred shares were converted to ordinary shares on a 1:1 basis upon the completion of IPO on 24 April 2020. Pursuant to the Group's Reorganisation as defined and detailed in the Prospectus, after completing Series D investments on 4 November 2019, the Company had 88,417,200 Series A Preferred Shares, 102,357,109 Series B Preferred Shares, 24,369,600 Series C Preferred Shares and 103,614,927 Series D Preferred Share, respectively. All Series A Preferred Shares and Series C Preferred Shares are convertible. 17,157,109 Series B Preferred Shares are convertible and redeemable (the "**Series B Preferred Share I**"), while the other 85,200,000 Series B Preferred Shares are convertible (the "**Series B Preferred Share II**"). All Series D Preferred Shares are convertible and redeemable. Capitalised terms used herein but not defined shall have the meanings given in the Second Amended and Restated Memorandum and Articles of Association of the Company (as amended from time to time, the "**Articles**").

The key terms considered when determining the accounting treatment for all the aforementioned preferred shares were detailed in note 24 to the Accountant's Report set out in Appendix I to the Prospectus.

Presentation and classification

The Series D Preferred Shares are designated entirely as financial liabilities at fair value though profit or loss and are presented as a separate line item "convertible redeemable preferred shares" in the statements of financial position. The change in fair value is charged to profit or loss except for the portion attributable to credit risk change that shall be charged to other comprehensive income, if any.

The Series B Preferred Shares I are classified as compound financial liabilities and bifurcated into liability component and equity component as disclosed in note 22(d) to the financial statements. All other preferred shares are included in equity attributable to owners of the parent with the par value included in share capital as further detailed in note 25(a) to the financial statements.

24. PREFERRED SHARES (Continued)

Presentation and classification (Continued)

The movements of Series D Preferred Shares are set out below:

	2020 *RMB'000*	2019 *RMB'000*
At 1 January	**1,099,563**	—
Issuance of 90,978,960 Series D Preferred Shares	**—**	888,506
Re-designated and reclassified from ordinary shares [(a)]	**—**	120,971
Changes in fair value	**412,421**	97,382
Conversion into ordinary shares upon the completion of the IPO [(b)]	**(1,524,715)**	—
Currency translation differences	**12,731**	(7,296)
At 31 December	**—**	1,099,563

Notes:

(a) In November 2019, 12,635,967 ordinary shares were re-designated and reclassified as Series D Preferred Shares.

(b) Upon the completion of the IPO on 24 April 2020, Series D Preferred Shares were converted into ordinary shares.

As at 31 December 2019, the Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted the option-pricing method and equity allocation model to determine the fair value of Series D Preferred Shares. Key assumptions are set out below:

	As at 31 December 2019
Discount rate	13.45%
Risk-free interest rate	2.41%~2.81%
Discount for lack of marketability ("**DLOM**")	11.95%
Volatility	37.62%~40.76%

The discount rate (post tax) was estimated by the weighted average cost of capital as of the valuation date. The Group estimated the risk-free interest rate based on the yield of China Government Bond as of the valuation date. The DLOM was estimated based on the option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount. The volatility was estimated based on historical volatility of comparable companies as of the valuation date. Probability weight under each of the redemption features and liquidation preferences were based on the Group's best estimates. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of Series D Preferred Shares on the valuation date.

Management considered that fair value changes of Series D Preferred Shares that were attributable to changes of credit risk of these instruments were not material.

31 December 2020

25. SHARE CAPITAL

Ordinary shares and preferred shares

	2020	2019
Issued and fully paid:		
787,057,176 (2019: 284,879,340) ordinary shares of US$0.00001 each	**US$7,871**	US$2,849
Nil (2019: 197,986,800) preferred shares of US$0.00001 each	**—**	US$1,980
	US$7,871	US$4,829
Equivalent to	**RMB55,000**	RMB34,000

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

	Numbers of preferred shares	Numbers of ordinary shares	Share capital Amount *RMB'000*	Share Premium *RMB'000*	Total *RMB'000*
At 30 January 2019 (date of incorporation)	—	—	—	—	—
Issue of ordinary shares during the period	—	512,659,216	36	—	36
Re-designated and reclassified as preferred shares *(note (a))*	197,986,800	(215,143,909)	(1)	—	(1)
Re-designated and reclassified as Series D Preferred Shares *(note 24)*	—	(12,635,967)	(1)	—	(1)
At 31 December 2019 and 1 January 2020	197,986,800	284,879,340	34	—	34
Issue of shares in connection with the IPO *(note (b))*	—	183,419,000	13	2,714,517	2,714,530
Share issue expenses	—	—	—	(82,918)	(82,918)
Transfer from preferred shares to ordinary shares *(note (c))*	(197,986,800)	318,758,836	8	—	8
At 31 December 2020	—	787,057,176	55	2,631,599	2,631,654

Notes:

(a) 215,143,909 ordinary shares were re-designated and reclassified as preferred shares, among which 17,157,109 Series B Preferred Shares I are recognised as compound financial liabilities.

(b) In connection with the IPO, 183,419,000 ordinary shares of a par value of US$0.00001 each were issued at a price of HK$16.18 per share for a total cash consideration, before deducting the underwriting fees and commissions and other estimated listing expenses, of approximately HK$2,967,719,000 (approximately RMB2,714,530,000).

(c) All preferred shares were converted into ordinary shares upon the completion of the IPO. Further details are included in notes 22 and 24 to the financial statements.

26. SHARE AWARD

Restricted Share Unit Scheme

The Company adopted a restricted share unit scheme on 29 August 2019 (the "**RSU Scheme**"). The purpose of the RSU Scheme is to recognise and motivate the contributions of the grantees under the RSU Scheme, provide incentives for them to remain with the Group, and attract suitable personnel for the further development. Eligible participants of the RSU Scheme include employees or officers (including executive, non-executive and independent non-executive directors of the Group) as well as other core technical personnel, key personnel or other natural persons or entities that were or will be important to the development of the Group.

On 26 March 2020, equity interest in the Company was granted to employees at an aggregate of 9,000,000 RSUs at a consideration of HK$0.001 (equivalent to RMB0.001). On 18 December 2020, equity interest in the Company was granted to employees of 1,291,917 RSUs at a consideration of HK$1.00 (equivalent to RMB0.89) and of 3,063,888 RSUs at a consideration of HK$0.001 (equivalent to RMB0.001), respectively. On 23 December 2020, equity interest in the Company was granted to employees at an aggregate of 5,190,757 RSUs at a consideration of HK$0.001 (equivalent to RMB0.001). The vesting periods of these RSUs ranged from one month to four years. There is no other performance target required except the eligible participant remains as employees of the Group during the vesting period. 12,535,262 RSUs have been vested under the RSU Scheme during the year ended 31 December 2020 (2019: Nil). As at 31 December 2020, the total number of RSUs which remain outstanding under the RSU Scheme was 26,723,937 (2019: Nil). No RSUs have been forfeited under the RSU Scheme during the year ended 31 December 2020 (2019: Nil).

During the year, the Group amortised the difference between the fair value of the share awards and the consideration that employees have to pay to the Company over the vesting period and recognised share award expenses of approximately RMB347,151,000 which was charged to the statement of profit or loss and other comprehensive income (2019: Nil). The fair value of the share awards is measured at the grant date at the market value of the shares. The market value of the RSUs granted on 26 March 2020 is determined using an option pricing model. The market value of the RSUs granted on 18 and 23 December 2020 are determined using the closing prices of listed shares as at those dates, respectively.

27. RESERVES

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

Capital reserve

The Group's capital reserve mainly includes the share premium of the ordinary shares issued in connection with the IPO and share issue expenses, the share premium of the ordinary shares transferred from preferred shares, equity-settled share award and the accumulated effects of the other equity transactions (i.e. the changes in non-controlling interests without losing control of a subsidiary).

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

28. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2020	2019
Percentage of equity interest held by non-controlling interests:		
CTTQ-Akeso	**50%**	50%
Akeso Pharma	**5%**	5%

	2020 *RMB'000*	2019 *RMB'000*
Loss for the year allocated to non-controlling interests:		
CTTQ-Akeso	**(118,288)**	(216)
Akeso Pharma	**(8,696)**	(1,801)
Accumulated balances of non-controlling interests at the reporting date:		
CTTQ-Akeso	**226,221**	172,147
Akeso Pharma	**(4,428)**	4,268

28. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2020	CTTQ-Akeso *RMB'000*	Akeso Pharma *RMB'000*
Revenue	—	—
Other income and gains	5,965	157
Total expenses	(277,014)	(174,078)
Loss for the year	(271,049)	(173,921)
Total comprehensive loss for the year	(271,049)	(173,921)
Current assets	188,435	70,321
Non-current assets	311,621	435,934
Current liabilities	(81,769)	(98,912)
Non-current liabilities	(319)	(490,904)
Net cash flows used in operating activities	(102,001)	(103,377)
Net cash flows used in investing activities	(105,483)	(302,159)
Net cash flows from financing activities	172,363	404,465
Net decrease in cash and cash equivalents	(35,121)	(1,071)

2019	CTTQ-Akeso *RMB'000*	Akeso Pharma *RMB'000*
Revenue	—	—
Other income and gains	199	9,322
Total expenses	(630)	(45,351)
Loss for the year	(431)	(36,029)
Total comprehensive loss for the year	(431)	(36,029)
Current assets	172,277	30,283
Non-current assets	1,708	147,065
Current liabilities	(1,021)	(11,988)
Non-current liabilities	(1,034)	(75,000)
Net cash flows used in operating activities	(73,240)	(51,900)
Net cash flows used in investing activities	(65)	(114,591)
Net cash flows from financing activities	172,363	75,000
Net increase/(decrease) in cash and cash equivalents	99,058	(91,491)

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB2,908,000 (2019: RMB3,320,000) and RMB2,908,000 (2019: RMB3,320,000), respectively, in respect of lease arrangements for plant and building.

(b) Changes in liabilities arising from financing activities

2020

	Interest-bearing bank and other borrowings *RMB'000*	Lease liabilities *RMB'000*	Convertible redeemable preferred shares *RMB'000*	Total *RMB'000*
At 1 January 2020	211,360	7,340	1,099,563	1,318,263
Changes from financing cash flows	36,920	(3,391)	—	33,529
Conversion into ordinary shares upon the completion of the IPO	(71,409)	—	(1,524,715)	(1,596,124)
Changes in fair value	—	—	412,421	412,421
New leases	—	2,908	—	2,908
Remeasurement resulting from early termination of a lease	—	(593)	—	(593)
Foreign exchange movement	598	—	12,731	13,329
Interest expense	14,956	—	—	14,956
Finance costs on lease liabilities	—	356	—	356
Covid-19-related rent concessions from lessors	—	(54)	—	(54)
At 31 December 2020	192,425	6,566	—	198,991

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Changes in liabilities arising from financing activities (Continued)

2019

	Interest-bearing bank and other borrowings *RMB'000*	Lease liabilities *RMB'000*	Convertible redeemable preferred shares *RMB'000*	Total *RMB'000*
At 1 January 2019	58,545	6,487	—	65,032
Changes from financing cash flows	82,506	(2,852)	888,506	968,160
Re-designated and reclassified from ordinary shares	64,930	—	120,971	185,901
New leases	—	3,320	—	3,320
Changes in fair value	—	—	97,382	97,382
Foreign exchange movement	(427)	—	(7,296)	(7,723)
Interest expense	5,806	—	—	5,806
Finance cost on lease liabilities	—	385	—	385
At 31 December 2019	211,360	7,340	1,099,563	1,318,263

(c) Total cash outflow for leases

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

	2020 ***RMB'000***	2019 *RMB'000*
Within operating activities	**1,434**	171
Within investing activities	**102,291**	—
Within financing activities	**3,391**	2,852
	107,116	3,023

30. CONTINGENT ASSETS/LIABILITIES

In February 2019, a subsidiary of the Group brought a breach of contract claim against Sichuan Kelun Drug Research Institute Co., Ltd. ("**Sichuan Kelun**") based on Sichuan Kelun's failure to perform its contractual obligations pursuant to the collaboration agreement entered between the subsidiary and Sichuan Kelun (the "**Kelun Collaboration Agreement**"). In this claim, the subsidiary of the Group sought an aggregate amount of approximately US$1.8 million (equivalent to RMB12.3 million). Taking into account the opinion of the Group's legal counsel that it was premature to speculate the outcome of such claim as at the date of this annual report, the Directors considered that the amount receivable in respect of the claim cannot be reliably measured and therefore no such asset was recognised during the reporting periods.

In July 2019, Sichuan Kelun filed a counterclaim and alleged that the subsidiary did not perform its contractual obligations under the Kelun Collaboration Agreement. In this claim, Sichuan Kelun sought for the return of RMB1 million the subsidiary received and an aggregate amount of approximately RMB20.2 million for compensation. As at the date of this annual report, the suit had completed the substantive hearing stage. Taking into account the opinion of the Group's legal counsel, the Directors believed that the subsidiary has a valid defense against the allegation and, accordingly, the Group has not provided for any claim arising from the litigation, other than the related legal and other costs.

31. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other borrowings and overdrafts and contract execution are included in notes 13, 14(a), 19 and 22, respectively, to the financial statements.

32. COMMITMENTS

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

	2020 *RMB'000*	2019 *RMB'000*
Contracted, but not provided for:		
Plant and machinery	**478,905**	268,134

(b) The Group has a lease contract that have not yet commenced as at 31 December 2020. The future lease payments for this non-cancellable lease contract are approximately RMB970,000 due within one year.

33. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) Other transactions with related parties:

Certain directors of the Company provided guarantees to certain subsidiaries of the Group in respect of banking facilities of RMB220,000,000 (2019: RMB260,000,000) as further detailed in note 22(b) to the financial statements.

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

During the year, the Company did not identify any personnel as key management other than the directors of the Company. Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

34. 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:

2020

Financial assets

	Financial assets at amortised cost *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
Financial assets included in prepayments, other receivables and other assets	4,980	—	4,980
Financial assets at fair value through profit or loss	—	110,000	110,000
Pledged deposits	1,953	—	1,953
Cash and cash equivalents	2,684,499	—	2,684,499
	2,691,432	110,000	2,801,432

31 December 2020

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade payables	**112,607**
Financial liabilities included in other payables and accruals	**4,048**
Interest-bearing bank and other borrowings	**192,425**
Lease liabilities	**6,566**
	315,646

2019

Financial assets

	Financial assets at amortised cost *RMB'000*	Financial assets at fair value through profit or loss *RMB'000*	Total *RMB'000*
Financial assets included in prepayments, other receivables and other assets	1,732	—	1,732
Financial assets at fair value through profit or loss	—	772	772
Pledged deposits	2,263	—	2,263
Cash and cash equivalents	1,186,044	—	1,186,044
	1,190,039	772	1,190,811

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2019 (Continued)

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	Financial liabilities at fair value through profit or loss *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	211,375	—	211,375
Financial liabilities included in other payables and accruals	16,782	—	16,782
Trade payables	42,923	—	42,923
Lease liabilities	7,340	—	7,340
Convertible redeemable preferred shares	—	1,099,563	1,099,563
	278,420	1,099,563	1,377,983

35. 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		Fair values	
	2020 *RMB'000*	2019 *RMB'000*	**2020 *RMB'000***	2019 *RMB'000*
Financial assets				
Financial assets at fair value through profit or loss	**110,000**	772	**110,000**	772
Financial liabilities				
Convertible redeemable preferred shares	—	1,099,563	—	1,099,563

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

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

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. 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 directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the non-current portion of interest-bearing bank and other borrowings and the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2020 and 2019 were assessed to be insignificant.

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 31 December 2020

	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	—	110,000	—	110,000

As at 31 December 2019

	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	—	772	—	772

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

Fair value hierarchy (Continued)

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2020.

As at 31 December 2019

	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*
Convertible redeemable preferred shares	—	—	1,099,563	1,099,563

Below is a summary of significant unobservable inputs to the valuation of the convertible redeemable preferred shares together with a quantitative sensitivity analysis as at 31 December 2019:

Significant unobservable input	Sensitivity of fair value of the input
Discount rate	Increase in 1% would result in decrease in fair value by RMB205,780,000; Decrease in 1% would result in increase in fair value by RMB263,223,000
Risk-free interest rate	Increase in 1% would result in decrease in fair value by RMB3,332,000; Decrease in 1% would result in increase in fair value by RMB3,494,000
Discount for Lack of Marketability ("**DLOM**")	Increase in 1% would result in decrease in fair value by RMB11,883,000; Decrease in 1% would result in increase in fair value by RMB11,888,000
Volatility	Increase in 1% would result in increase in fair value by RMB473,000; Decrease in 1% would result in decrease in fair value by RMB498,000

During the year, 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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, lease liabilities, convertible redeemable preferred shares, financial assets at fair value through profit or loss, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivables, trade payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair values of monetary assets and liabilities).

Increase/(decrease) in loss before tax

	2020	2019
	RMB'000	*RMB'000*
Increase in the US$ rate by 5%	**3,951**	(1,254)
Decrease in the US$ rate by 5%	**(3,951)**	1,254

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which primarily comprise cash and cash equivalents, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	2020 12-month ECLs Stage 1 *RMB'000*	2019 12-month ECLs Stage 1 RMB'000
Financial assets included in prepayments, other receivables and other assets		
— Normal*	**4,980**	1,732
Pledged deposits		
— Not yet past due	**1,953**	2,263
Cash and cash equivalents		
— Not yet past due	**2,684,499**	1,186,044
	2,691,432	1,190,039

* The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

31 December 2020

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Liquidity risk (Continued)

The Group's objective is to maintain continuity of funding. The maturity profile of the Group's financial liabilities as at 31 December 2020 and 2019, based on the contractual undiscounted payments, is as follows:

As at 31 December 2020

	On demand *RMB'000*	Within 1 year *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Lease liabilities	—	3,146	3,848	—	6,994
Interest-bearing bank and other borrowings (excluding lease liabilities)	—	23,750	194,717	6,652	225,119
Trade payables	12,893	99,714	—	—	112,607
Financial liabilities included in other payables and accruals	4,048	—	—	—	4,048
	16,941	126,610	198,565	6,652	348,768

As at 31 December 2019

	On demand *RMB'000*	Within 1 year *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Lease liabilities	—	3,141	4,796	—	7,937
Interest-bearing bank and other borrowings (excluding lease liabilities)	15	38,991	264,552	7,707	311,265
Trade payables	949	41,974	—	—	42,923
Financial liabilities included in other payables and accruals	16,782	—	—	—	16,782
Convertible redeemable preferred shares *(note)*	—	—	1,406,452	—	1,406,452
	17,746	84,106	1,675,800	7,707	1,785,359

Note: The liquidity risk of convertible redeemable preferred shares is the original issue price of Series D Preferred Shares plus the respective predetermined interest (the "**redemption amount**"), assuming that no consummation of public offering of the Company's shares before the third anniversary of the original issue date and the holders of the Series D Preferred Shares request the Company to redeem all of the Series D Preferred Shares.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

37. EVENTS AFTER THE REPORTING PERIOD

On 14 January 2021, 30,000,000 new shares were placed at a price of HK$39.60 per share to not less than six independent third parties for an aggregate cash consideration, before expenses, of HK$1,188 million (equivalent to RMB900 million). Certain related transaction costs were netted off against the cash proceeds. The net proceeds were intended to be used for the business development of the Group. Details have been set out in the announcements of the Company dated 7 and 14 January 2021, respectively.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 *RMB'000*	2019 *RMB'000*
NON-CURRENT ASSETS		
Investments in a subsidiary	**2,257**	2,257
CURRENT ASSETS		
Due from subsidiaries	**1,607,713**	735,992
Prepayments, other receivables and other assets	**122**	242
Cash and cash equivalents	**1,977,852**	455,428
Total current assets	**3,585,687**	1,191,662
CURRENT LIABILITIES		
Due to subsidiaries	**2,531**	2,630
Other payables and accruals	**1,683**	—
Total current liabilities	**4,214**	2,630
NET CURRENT ASSETS	**3,581,473**	1,189,032
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,583,730**	1,191,289
NON-CURRENT LIABILITIES		
Convertible redeemable preferred shares	**—**	1,099,563
Interest-bearing bank and other borrowings	**—**	66,660
Total non-current liabilities	**—**	1,166,223
Net assets	**3,583,730**	25,066
EQUITY		
Share capital	**55**	34
Reserves *(note)*	**3,583,675**	25,032
Total equity	**3,583,730**	25,066

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium *RMB'000*	Capital reserve *RMB'000*	Share award reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 30 January 2019 (date of incorporation)	—	—	—	—	—	—
Loss for the period	—	—	—	—	(101,927)	(101,927)
Other comprehensive loss for the period:						
Translation from functional currency to presentation currency	—	—	—	(8,195)	—	(8,195)
Total comprehensive loss for the period	—	—	—	(8,195)	(101,927)	(110,122)
Issue of shares	—	321,053	—	—	—	321,053
Re-designated and reclassified into preferred shares	—	(278,112)	—	—	—	(278,112)
Equity component of the Series B Preferred Shares I	—	92,213	—	—	—	92,213
At 31 December 2019 and 1 January 2020	—	135,154	—	(8,195)	(101,927)	25,032
Loss for the year	—	—	—	—	(713,673)	(713,673)
Other comprehensive loss for the year:						
Translation from functional currency to presentation currency	—	—	—	(302,550)	—	(302,550)
Total comprehensive loss for the year	—	—	—	(302,550)	(713,673)	(1,016,223)
Issue of shares	2,714,517	—	—	—	—	2,714,517
Share issue expenses	(82,918)	—	—	—	—	(82,918)
Converted from preferred shares	—	1,596,116	—	—	—	1,596,116
Equity-settled share award	—	—	347,151	—	—	347,151
At 31 December 2020	2,631,599	1,731,270	347,151	(310,745)	(815,600)	3,583,675

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2021.

THREE-YEAR FINANCIAL SUMMARY

	For the year ended December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	***RMB'000***
Operating results			
Revenue	2,826	70,879	—
Other income and gains, net	27,045	50,186	**123,524**
Research and development expenses	(161,095)	(308,388)	**(768,589)**
Administrative expenses	(20,157)	(55,421)	**(253,029)**
Loss for the year	(154,354)	(346,454)	**(1,320,579)**

	For the year ended December 31,		
	2018	2019	2020
	RMB'000	*RMB'000*	***RMB'000***
Financial position			
Non-current assets	194,201	416,975	**854,843**
Current assets	457,517	1,255,964	**3,001,326**
Non-current liabilities	77,387	1,337,473	**235,759**
Current liabilities	86,236	119,761	**169,971**
Net assets	488,095	215,705	**3,450,439**

note: Three years' financial summary is presented as the Company was newly listed on 24 April 2020 and it is not practicable for the Company to present the financial summary of the Group prior to 2018.


Akesobio