



(incorporated in the Cayman Islands with limited liability)

HKEX: 9688

NASDAQ: ZLAB



# 2022 Interim Report



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# CORPORATE INFORMATION

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As of the date of this interim report:

## BOARD OF DIRECTORS

### Directors

Dr. Samantha Du (*Director, Chairperson, and Chief Executive Officer*)

### Independent Directors

Dr. Kai-Xian Chen

Dr. John Diekman

Ms. Nisa Leung

Mr. William Lis

Mr. Leon O. Moulder, Jr.

Mr. Peter Wirth

Mr. Scott W. Morrison

Richard Gaynor, M.D.

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN MAINLAND CHINA

4560 Jinke Road

Bldg. 1, 4/F

Pudong, Shanghai

China 201210

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN UNITED STATES

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USA 02142

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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## REGISTERED OFFICE

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103 South Church Street

P.O. Box 472

George Town

Grand Cayman KY1-1106

Cayman Islands

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

International Corporation Services Ltd.

Harbour Place, 2nd Floor

103 South Church Street

P.O. Box 472

George Town

Grand Cayman KY1-1106

Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716

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## COMPLIANCE ADVISOR

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Hong Kong

## AUTHORIZED REPRESENTATIVES

Dr. Samantha Du  
4560 Jinke Road  
Bldg. 1, 4/F  
Pudong, Shanghai  
China 201210

Ms. Nelly Au-Yeung  
5/F, Manulife Place  
348 Kwun Tong Road  
Kowloon, Hong Kong

## AUDIT COMMITTEE

Mr. Scott Morrison (*Chair*)  
Dr. John Diekman  
Mr. Peter Wirth

## COMPENSATION COMMITTEE

Mr. Peter Wirth (*Chair*)  
Ms. Nisa Leung  
Mr. Leon O. Moulder, Jr.

## NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Mr. Leon O. Moulder, Jr. (*Chair*)  
Dr. John Diekman  
Mr. William Lis

## RESEARCH AND DEVELOPMENT COMMITTEE

Mr. Richard Gaynor, M.D. (*Chair*)  
Dr. Samantha Du  
Dr. Kai-Xian Chen  
Mr. William Lis

## STOCK CODES

HKEX: 9688  
NASDAQ: ZLAB

## AUDITOR

KPMG LLP

## COMPANY WEBSITE

<http://www.zailaboratory.com/>

# FORWARD-LOOKING STATEMENTS

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This interim report contains forward-looking statements relating to our strategy and plans; potential of and expectations for our business and pipeline programs; capital allocation and investment strategy; clinical development programs; clinical trial data, data readouts, and presentations; risks and uncertainties associated with drug development and commercialization; regulatory discussions, submissions, filings, and approvals and the timing thereof; the potential benefits, safety, and efficacy of our collaboration partners' products and of our pipeline therapies; the anticipated benefits and potential of investments, collaborations, and business development activities; our future financial and operating results; financial guidance, including our projections for the number of marketed products we will have in the future; our revenue projections for our current franchises; key data readouts and regulatory filings across our entire portfolio; and our plans to initiate or continue existing clinical trials for our other products and product candidates. All statements, other than statements of historical fact, included in this interim report are forward-looking statements, and can be identified by words such as "aim," "anticipate," "believe," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "plan," "possible," "potential," "will," "would," and other similar expressions. Such statements constitute forward-looking statements. Forward-looking statements are not guarantees or assurances of future performance. Forward-looking statements are based on our expectations and assumptions as of the date of this interim report and are subject to inherent uncertainties, risks, and changes in circumstances that may differ materially from those contemplated by the forward-looking statements. We may not actually achieve the plans, carry out the intentions, or meet the expectations or projections disclosed in our forward-looking statements, and you should not place undue reliance on these forward-looking statements. Actual results may differ materially from those indicated by forward-looking statements as a result of various important factors, including but not limited to (1) our ability to successfully commercialize and generate revenue from our approved products, (2) our ability to obtain funding for our operations and business initiatives, (3) the results of our clinical and pre-clinical development of our product candidates, (4) the content and timing of decisions made by the relevant regulatory authorities regarding regulatory approvals of our product candidates, (5) the effects of the novel coronavirus (COVID-19) pandemic, including any government actions or lockdown measures taken in response, on our business and general economic, regulatory, and political conditions, (6) risks related to doing business in China, and (7) other factors identified in our most recent annual and quarterly reports and in other reports we have concurrently filed with the SEC and the Hong Kong Stock Exchange. We anticipate that subsequent events and developments will cause our expectations and assumptions to change, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required by law. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this interim report.

# MANAGEMENT DISCUSSION AND ANALYSIS

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## OVERVIEW

We are a patient-focused, innovative, commercial-stage, global biopharmaceutical company based in China and the United States. We are discovering, developing, and commercializing innovative products that target medical conditions with unmet needs affecting patients in Greater China and worldwide, in the areas of oncology, autoimmune disorders, infectious diseases, and neurological disorders. As of August 3, 2022, we have four commercialized products that have received marketing approval in one or more territories in Greater China and twelve programs in late-stage product development.

Since our inception, we have incurred net losses and negative cash flows from our operations. Substantially all of our losses have resulted from funding our research and development programs and general and administrative costs associated with our operations. Developing high quality product candidates requires a significant investment related to our research and development activities over a prolonged period of time, and a core part of our strategy is to continue making sustained investments in this area. Our ability to generate profits and to generate positive cash flow from operations over the next several years depends upon our ability to successfully market our four commercial products — ZEJULA, Optune, QINLOCK, and NUZYRA — and to successfully develop and commercialize our other product candidates. We expect to continue to incur substantial expenses related to our research and development activities. In particular, our licensing and collaboration agreements require us to make upfront payments upon our entry into such agreements and milestone payments upon the achievement of certain development, regulatory, and commercial milestones as well as tiered royalties based on the net sales of the licensed products. These upfront and milestone payments are recorded in our research and development expenses. During the six months ended June 30, 2022, we accrued \$10.4 million of research and development expenses related to the achievement of certain developmental milestones by our partners during the second quarter of 2022. In addition, we expect to incur substantial costs related to the commercialization of our product candidates, in particular during the early launch phase.

Furthermore, as we pursue our strategy of growth and development, we anticipate that our financial results will fluctuate from quarter to quarter based upon the balance between the successful marketing of our commercial products and our significant research and development expenses. We cannot predict whether or when new products or new indications for marketed products will receive regulatory approval or, if any such approval is received, whether we will be able to successfully commercialize such product(s) and whether or when they may become profitable.

## Recent Developments

### Recent Product Developments

#### *ZEJULA*

In March 2022, we presented positive results from the Phase 3 PRIME study of ZEJULA (niraparib) as maintenance therapy at the Society of Gynecologic Oncology 2022 Annual Meeting. ZEJULA demonstrated a statistically significant and clinically meaningful improvement in PFS with a tolerable safety profile in Chinese patients with newly diagnosed advanced epithelial ovarian, fallopian tube, or primary peritoneal cancer (collectively termed as ovarian cancer) following a response to platinum-based chemotherapy, regardless of biomarker status. In the PRIME study, mPFS was significantly longer for patients treated with niraparib compared to placebo: 24.8 months versus 8.3 months, HR, 0.45;  $p < 0.001$ .

# MANAGEMENT DISCUSSION AND ANALYSIS

In June 2022, we presented a new prespecified subgroup analysis from the Phase 3 PRIME study for ZEJULA in women in mainland China with ovarian cancer at the 2022 ASCO Annual Meeting. This analysis examined 384 newly diagnosed stage III or IV ovarian cancer patients enrolled in the PRIME study who experienced a CR or PR to first-line platinum-based chemotherapy. In the CR group, the mPFS was 29.4 months for niraparib versus 8.3 months for placebo (HR=0.45; 95% CI, 0.32–0.61; P<0.001); in the PR group, the mPFS was 19.3 months for niraparib versus 8.3 months for placebo (HR=0.45; 95% CI, 0.23–0.86; P=0.014); and the safety profile of niraparib was consistent with previous clinical trials, with no new safety issues identified in this subgroup analysis.

## *Optune (Tumor Treating Fields)*

In January 2022, we announced treatment of the first patient in Greater China in the PANOVA-3 trial, a Phase 3 pivotal trial of TTFIELDS in patients with pancreatic cancer. PANOVA-3 is a global, open-label, randomized Phase III trial evaluating the efficacy of TTFIELDS administered concomitantly with gemcitabine and nab-paclitaxel as front-line treatment for patients with unresectable, locally advanced pancreatic cancer. The primary endpoint is overall survival. Secondary endpoints include PFS, local progression-free survival, ORR, one-year survival rate, quality of life, pain-free survival, resectability rate, and toxicity.

In June 2022, the Company and Novocure announced the EF-31 phase 2 pilot study, evaluating the safety and efficacy of TTFIELDS together with standard-of-care (chemotherapy alone or in combination with trastuzumab for HER2-positive patients) as a first-line treatment in patients with gastric cancer, met its primary endpoint of ORR with supportive signals across secondary endpoints. As of June 30, 2022, Optune has been listed in 50 supplemental insurance plans.

## *QINLOCK*

As of June 30, 2022, QINLOCK has been listed in 73 supplemental insurance plans since its commercial launch in mainland China in May 2021.

## *Adagrasib*

In June 2022, our partner Mirati Therapeutics, Inc. (“Mirati”) presented full results from the registration-enabling Phase 2 cohort of the KRYSTAL-1 study evaluating adagrasib in patients with previously treated NSCLC harboring a KRAS<sup>G12C</sup> mutation at the 2022 ASCO Annual Meeting; these results were concurrently published in the New England Journal of Medicine. This presentation included results from a retrospective subgroup analysis from the Phase 2 NSCLC cohort of the KRYSTAL-1 study evaluating adagrasib in patients with KRAS<sup>G12C</sup>-mutated NSCLC and stable, previously treated CNS metastases. The initial clinical results from the Phase 2 registration-enabling study (n=112) showed that the ORR was 43%, the DCR was 80%, the mDOR was 8.5 months (95% CI: 6.2–13.8), and the mPFS was 6.5 months (95% CI: 4.7–8.4). With a January 15, 2022 data cutoff, the mOS was 12.6 months (95% CI: 9.2–19.2). With respect to CNS-specific activity in a subset analysis of stable, previously treated CNS metastases (n=33), results revealed an IC ORR of 33% (11/33). Mirati also reported updated findings from a pooled analysis from the KRYSTAL-1 study, including the registrational Phase 2 and Phase 1/1b NSCLC cohorts. The initial results of the pooled analysis of KRYSTAL-1 NSCLC cohorts (n=132) showed that the ORR was 44%, the DCR was 81%, the mDOR was 12.5 months, and the mPFS was 6.9 months. With a January 15, 2022 data cutoff, the mOS was 14.1 months.

# MANAGEMENT DISCUSSION AND ANALYSIS

In June 2022, Mirati also announced the results of a prospective analysis from the Phase 1b cohort of the KRYSTAL-1 study evaluating IC responses of adagrasib in patients with KRAS<sup>G12C</sup>-mutated advanced NSCLC with active and untreated CNS metastases. The results of the CNS-specific activity in active and untreated CNS metastases (n=19) showed an IC ORR of 32% (6/19).

In addition, the Company treated the first patients in Greater China for the global Phase 3 KRYSTAL-10 study of the combination of adagrasib and cetuximab in patients with KRAS<sup>G12C</sup>-mutated advanced colorectal cancer and for the global Phase 3 KRYSTAL-12 study of adagrasib in patients with KRAS<sup>G12C</sup>-mutated advanced NSCLC in June 2022 and July 2022, respectively.

## *Bemarituzumab*

Our partner Amgen initiated a Phase 1b/2 study (FORTITUDE-301), evaluating the safety and efficacy of bemarituzumab monotherapy in solid tumors with FGFR2b overexpression. In addition, Amgen reported that the final analysis of the FIGHT study, a Phase 2 randomized, double-blind, controlled study evaluating bemarituzumab and mFOLFOX6 in patients with previously untreated advanced gastric and gastroesophageal junction cancer was completed, with results continuing to demonstrate that bemarituzumab + mFOLFOX6 improves the clinical outcome of patients with FGFR2b expressing tumors with no new safety concerns identified and noting that a greater survival benefit was observed with increasing FGFR2b expression levels.

## *Margetuximab*

In January 2022, we announced that the NMPA accepted the NDA for margetuximab, an investigational, Fc-engineered monoclonal antibody that targets HER2. The margetuximab NDA is for the treatment of adult patients with metastatic HER2-positive breast cancer who have received two or more prior anti-HER2 regimens, at least one of which was for metastatic disease, in combination with chemotherapy.

## *Repotrectinib*

In February 2022, the CDE granted BTD for repotrectinib for the treatment of patients with ROS1-positive metastatic NSCLC who have not been treated with a ROS1 TKI. The BTD was supported by the initial data from both global and Chinese TKI-naïve ROS1-positive NSCLC patients enrolled in the Phase 1/2 TRIDENT-1 study. We plan to participate in all cohorts of the global TRIDENT-1 study.

In April 2022, we announced topline data for repotrectinib within mainland China from the previously disclosed Phase 1/2 TRIDENT-1 study dataset:

- In TKI-naïve patients (EXP-1), in 71 total patients, there was a cORR of 79% across the global trial. Ten of 11 patients responded within mainland China for a cORR of 91% (95% CI: 59,100), and DOR ranged from 3.6+ to 7.5+ months with a median duration of follow-up of 3.7 months.
- In patients previously treated with 1 TKI and platinum-based chemotherapy (EXP-2), in 26 total patients, there was a cORR of 42% across the global trial. Two of 3 patients responded within mainland China for a cORR of 67% (95% CI:9,99), and DOR ranged from 3.6+ to 3.7+ months with a median duration of follow-up of 3.7 months.

# MANAGEMENT DISCUSSION AND ANALYSIS

- In patients previously treated with two TKIs without prior chemotherapy (EXP-3), in 18 total patients, there was a cORR of 28% across the global trial. Two of 4 patients responded within mainland China for a cORR of 50% (95% CI: 7,93), and DOR ranged from 1.9+ to 3.4+ months with a median duration of follow-up of 2.6 months.
- In patients previously treated with 1 TKI without prior chemotherapy (EXP-4), in 56 total patients, there was a cORR of 36% across the global trial. Four of 11 patients responded within mainland China for a cORR of 36% (95% CI: 11,69), and DOR ranged from 2.0+ to 3.7+ months with a median duration of follow-up of 3.1 months.

We plan to discuss this topline TKI-naïve data with the NMPA in the fourth quarter of 2022.

In May 2022, our partner Turning Point Therapeutics, Inc. (“Turning Point”) announced that the FDA granted an eighth regulatory designation and third BTD to repotrectinib, for the treatment of patients with ROS1-positive metastatic NSCLC who have been previously treated with one ROS1 TKI and who have not received prior platinum-based chemotherapy. In June 2022, the CDE granted two BTDs for investigational repotrectinib for the treatment of patients with ROS1-positive metastatic NSCLC who have received one prior line of ROS1 TKI and one prior line of platinum-based chemotherapy and for those with ROS1-positive metastatic NSCLC who have received one prior line of ROS1 TKI and no chemotherapy or immunotherapy. The BTDs for repotrectinib were supported by the data from both global and Chinese TKI-pretreated ROS1-positive NSCLC patients enrolled in the Phase 1/2 TRIDENT-1 study.

## *CLN-081*

In June 2022, our partner Cullinan Oncology presented updated data from the Phase 1/2a study in NSCLC patients with EGFR exon 20 insertion mutations at the 2022 ASCO Annual Meeting. Of the 39 patients in the 100 mg BID dose group: 16 (41%) had a confirmed PR; the estimated mDOR was greater than 21 months; mPFS was 12 months; and the safety profile of CLN-081 was amenable for long-term treatment.

## *BLU-945*

In June 2022, we received a Clinical Trial Application approval from the NMPA for the BLU-945 monotherapy cohort of the global Phase 1/2 SYMPHONY study in Greater China.

## *VYVGART*

In June 2022, efgartigimod was introduced to the Hainan Bo’ao Lecheng International Medical Tourism Pilot Zone, and the first Chinese patient was treated with efgartigimod. In July 2022, the NMPA accepted the Biologics License Application for efgartigimod alfa injection for the treatment of adult patients with generalized myasthenia gravis in mainland China.

## *KarXT*

In August 2022, our partner Karuna Therapeutics, Inc. (“Karuna”) announced positive topline results from its Phase 3 EMERGENT-2 trial evaluating the efficacy, safety, and tolerability of KarXT in adults with schizophrenia. The trial met its primary endpoint, with KarXT demonstrating a statistically significant and clinically meaningful 9.6-point reduction in the PANSS total score compared to placebo (-21.2 KarXT vs. -11.6 placebo,  $p < 0.0001$ ) at Week 5 (Cohen’s  $d$  effect size of 0.61). KarXT also demonstrated an early and sustained

# MANAGEMENT DISCUSSION AND ANALYSIS

statistically significant reduction of symptoms, as assessed by PANSS total score, starting at Week 2 and maintained such reduction through all timepoints in the trial. The trial also met its key secondary endpoints, demonstrating statistically significant reductions in positive and negative symptoms of schizophrenia, as measured by the PANSS positive, PANSS negative, and PANSS Marder negative subscales. KarXT was generally well tolerated, with a side effect profile substantially consistent with prior trials of KarXT in schizophrenia.

## *Simurosertib (CDC7 Inhibitor)*

Based on an extensive review of the data collected from previously completed studies, we have decided to terminate enrollment for the study of simurosertib.

## *ZL-1201 (CD47 Inhibitor)*

In July 2022, we determined a recommended Phase 2 dose in the ongoing Phase 1 trial. Based on a review of the competitive landscape, we have decided to deprioritize ZL-1201 for internal development but will pursue out-licensing opportunities.

## *Internal Oncology Discovery Portfolio*

In April 2022, we presented new data from our internal oncology discovery portfolio at the AACR Annual Meeting 2022. Key early-stage discovery programs were featured in these presentations, including first preview of preclinical data on ZL-1218 (a novel anti-CCR8 antibody for solid tumors) in oral presentation, as well as poster presentations featured ZL-1201 (a CD47-targeting antibody for advanced hematologic malignancies and solid tumors), ZL-1211 (a Claudin18.2-specific antibody for gastric and pancreatic cancer), and ZL-2201 (a highly selective small-molecule DNA-PK inhibitor for anti-cancer therapy).

## **Recent Business Developments**

In March 2022, our shareholders approved a Share Subdivision whereby the Company subdivided each of its issued and unissued ordinary shares into ten ordinary shares, effective March 30, 2022. The one-to-ten Share Subdivision increased the number of our ordinary shares in issue and reduced the nominal value and trading price of each ordinary share. The Board believes that the Share Subdivision will increase the trading liquidity of the ordinary shares, lower the investment barrier, and attract more investors to trade in the ordinary shares. In connection with the Share Subdivision, the Company also effected the ADS Ratio Change, whereby the conversion ratio of our ADSs to ordinary shares changed from one ADS to one ordinary share to a new ratio of one ADS to ten ordinary shares. The Share Subdivision and ADS Ratio Change did not result in any change to the number of outstanding ADSs of the Company.

In March 2022, SEC staff conclusively identified us under the HFCAA as a “Commission-Identified Issuer” because Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu, our auditor for the financial statements included in our 2021 Annual Report, is located in a foreign jurisdiction and PCAOB has determined that it is unable to inspect or investigate the auditor completely because of a restriction imposed by a non-U.S. authority in the auditor’s local jurisdiction.

# MANAGEMENT DISCUSSION AND ANALYSIS

In April 2022, the Audit Committee of the Board approved the engagement of KPMG LLP, an auditor located in the United States that is subject to PCAOB inspection, as our independent registered public accounting firm for the fiscal year ending December 31, 2022. In May 2022, we completed our engagement of KPMG LLP to be our independent registered public accounting firm for the fiscal year ending December 31, 2022. On May 25, 2022, the Company received the requisite approvals from the Hong Kong Stock Exchange and the Financial Reporting Council of Hong Kong, and on May 31, 2022, the Company and KPMG LLP signed an engagement letter, and the appointment became effective on the same date. KPMG LLP is engaged to audit our annual consolidated financial statements filed with the SEC and our internal controls over financial reporting in accordance with the Securities Exchange Act of 1934, as amended, and audit our consolidated financial statements submitted to the Hong Kong Stock Exchange in accordance with the HK Listing Rules.

We also completed our voluntary conversion from secondary listing status to primary listing on the Hong Kong Stock Exchange, effective June 27, 2022. The Company's ordinary shares and ADSs will continue to be traded on the Hong Kong Stock Exchange and Nasdaq, respectively, and remain mutually fungible. Because of our conversion to primary listing in Hong Kong, we are eligible for the Hong Kong Stock Exchange Stock Connect, a channel by which investors in mainland China can invest in stocks traded on the Hong Kong Stock Exchange. Our ordinary shares have been included in the Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect programs since June 2022 and July 2022, respectively.

In July 2022, the Board further enhanced our corporate governance by appointing John Diekman to be lead independent director. The Board continues to believe that the Chief Executive Officer is best suited to serve as Chairperson of the Board at this time, including due to her extensive understanding of our business and industry and her ability to identify strategic opportunities, promote the effective execution of strategic initiatives, and facilitate the flow of information between management and the Board. While the roles of Chairperson of the Board and Chief Executive officer are combined, our lead independent director will, among other things, lead meetings of the Board when the Chairperson is not present, serve as liaison between the Chairperson and independent directors, have the authority to call meetings of the independent directors, and, if requested by major shareholders, be available for consultation and direct communication. As a result of Mr. Diekman's appointment as lead independent director, he stepped down as Chair of the Audit Committee, although he will continue to serve as a member of the Audit Committee. As a result, the Board appointed Scott Morrison to be Chair of the Audit Committee.

We also continued to strengthen and expand our leadership team. Joshua Smiley, aged 53, joined the Company as Chief Operating Officer, effective August 1, 2022. Mr. Smiley brings over 26 years of experience working with the biopharmaceutical industry, including experience leading finance, corporate strategy, business development, venture capital, and global business services operations at Eli Lilly and Company. In this role, he reports directly to our Chief Executive Officer and will be a key member of our executive committee, overseeing all aspects of our business, finance, and global operations. In addition, in April 2022, Jonathan Wang became our Chief Business Officer, taking on increased responsibilities after the departure of Tao Fu, our former Chief Strategy Officer.

## Recent Legal and Regulatory Developments

### Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments)

On April 2, 2022, the China Securities Regulatory Commission published the revised Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (the "Draft Archives Rules").

# MANAGEMENT DISCUSSION AND ANALYSIS

The Draft Archives Rules require that, in relation to the overseas securities offering and listing activities of Chinese domestic enterprises, such domestic enterprises, as well as securities companies and securities service institutions providing relevant securities services, are required to strictly comply with the relevant requirements on confidentiality and archives management, establish a sound confidentiality and archives system, and take necessary measures to implement their confidentiality and archives management responsibilities.

According to the Draft Archives Rules, if during the course of an overseas offering and listing (whether listed directly or indirectly), if a Chinese domestic company needs to publicly disclose or provide, or publicly disclose or provide through its overseas listed entity, to relevant entities or individuals including securities companies, other securities service providers, and overseas regulators, any documents and materials that contain relevant state secrets or government department work secrets or that have a sensitive impact (i.e., that are detrimental to national security or the public interest if divulged), the Chinese domestic company should complete the relevant approval/filing and other regulatory procedures stipulated by applicable national regulations.

In addition, the Draft Archives Rules explicitly include within the scope of its supervision overseas accounting firms that engage in auditing business related to overseas securities offering and listings of Chinese domestic enterprises. Overseas accounting firms that engage in auditing business related to overseas securities offering and listings of Chinese domestic enterprises are required to abide by corresponding procedures in accordance with relevant national regulations.

## **Amended China Civil Procedure Law**

The Civil Procedure Law of the People's Republic of China (the "China Civil Procedure Law"), which was adopted on April 9, 1991 and amended on October 28, 2007, August 31, 2012, June 27, 2017, and December 24, 2021, prescribes the conditions for instituting a civil action, the jurisdiction of the people's courts, the procedures for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. The most recent amendments to the China Civil Procedure Law on December 24, 2021, which came into effect on January 1, 2022, include the following improvements to the civil procedure under China's current judicial system: (i) with the consent of the parties, civil litigation activities may be conducted online through the information network platform and such online litigation activities have the same legal effect as offline litigation activities; (ii) in addition to civil cases followed by summary procedure, civil cases followed by ordinary procedure and civil cases of second instance which meet certain criteria may also be tried by a single judge; (iii) the scope of the litigation documents which are allowed to be served by electronic means expands to include judgments, awards, and mediation statements; (iv) the period of service which is effected by public announcement in cases where the location of the recipient of the service is unknown or the service cannot be served by other means specified in the China Civil Procedure Law is shortened from 60 days to 30 days; (v) with respect to small claims procedure, the amount of the subject matter applicable to small claims procedure is raised, the trial time for small claims procedure is limited to three months, and certain types of cases, such as cases of personal relation, are excluded from application of small claims procedure; and (vi) the jurisdiction of judicial conformation of a mediation agreement is further clarified and the parties to a mediation agreement are given more options in terms of choosing the people's court for judicial conformation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Collecting and Using China-Sourced Human Genetic Resources and Derived Data

On March 4, 2022, the Ministry of Science and Technology of the People's Republic of China ("MOST") issued Answers to Frequently Asked Questions Regarding Human Genetic Resources ("HGRs") Administration (the "Q&A Series I"). The Q&A Series I provides short answers to 30 frequently asked questions relating to the collection, preservation, utilization, and external provision of China-sourced HGRs. For example, the Q&A Series I clarifies that a notification filing with the Human Genetic Resources Administration Office of China is required for purpose of transferring China-sourced HGRs to regulatory authorities in other jurisdictions.

On March 22, 2022, the MOST issued the Draft Implementing Rules of the Regulation on the Administration of Human Genetic Resources (Draft for Comment) (the "Draft Implementing Rules"), which closely scrutinize all HGRs-related activity from upstream collection of HGR materials to downstream exploitation and external provision of the HGR materials and data derived therefrom ("HGR data"). The Draft Implementing Rules are intended to provide operational details and clarify questions that have emerged in the past few years after the Regulation on the Administration of Human Genetic Resources became effective. Under the Draft Implementing Rules, clinical studies conducted for purpose of obtaining marketing authorization for drugs and medical devices in China, if not involving the export of HGR materials, will be eligible for a notification filing (as opposed to advance approval) if the HGR materials are collected by sites and processed by sites or an onshore third-party lab specified in the clinical trial protocol. The Draft Implementing Rules provide clearer guidance on how to allocate the intellectual property derived from Sino-foreign cooperative research utilizing China-Sourced HGRs. The Draft Implementing Rules enumerate situations where a security review is required for external provision or utilization in an open manner of HGR data, such as external provision or utilization in an open manner of HGR data about important genetic pedigrees, HGR data from specific regions, and exome sequencing and genome sequencing information of over 500 individuals.

On April 15, 2022, the MOST issued Answers to Frequently Asked Questions Regarding Human Genetic Resources Administration (Q&A Series II) (the "Q&A Series II"). The Q&A Series II provide formal written responses to 5 frequently asked questions relating to the collection, preservation, utilization, and external provision of China-Sourced HGRs. The Q&A Series II specifies that collection, external provision, or utilization in an open manner of the data related to clinical practices, patient demographics, lab tests, medical images, etc. that do not carry genetic attributes will not be regulated as collection, external provision, or utilization in an open manner of HGR data. The Q&A Series II stipulates that no advance approval for Sino-foreign cooperative research is required for research utilizing China-Sourced HGRs, if the foreign entity who provides funding support will not substantially participate in the research and have any access to or ownership of the research data and research results.

## Auxiliary Rules for the Regulations on Supervision and Administration of Medical Devices

On March 18, 2021, the State Council published new Regulations on Supervision and Administration of Medical Devices ("Order 739"), which became effective on June 1, 2021. These top-level medical device administrative regulations contain a number of important changes, the practical effects of which will be implemented in corresponding auxiliary regulations and rules. Recently, a series of regulations have been amended accordingly to support the implementation of Order 739 in terms of the production, distribution, and clinical trials of medical devices.

# MANAGEMENT DISCUSSION AND ANALYSIS

- Measures for the Supervision and Administration of the Production of Medical Devices

On May 1, 2022, a revised version of the Measures for the Supervision and Administration of the Production of Medical Devices (“Order 53”), promulgated by the State Administration for Market Regulation (“SAMR”) became effective. All medical device manufacturing activities within China should comply with Order 53. Order 53 clarifies the responsibilities and obligations of medical device registrants, record-filing applicants, and their entrusted manufacturers where applicable. Order 53 also establishes a medical device reporting system with an aim to improve administration of medical device production. The reporting system consists of several types of reports, including an annual self-inspection report, production product variety report, production conditions change report, re-production report, and recall and disposal report. The medical device registrants, record-filing applicants, and/or the medical device manufacturers need to submit corresponding reports to the local relevant Medical Product Administrations in accordance with Order 53.

- Measures for the Supervision and Administration of the Distribution of Medical Devices

On May 1, 2022, a revised version of the Measures for the Supervision and Administration of the Distribution of Medical Devices (“Order 54”) promulgated by the SAMR came into effect. All medical device distribution activities within China should comply with Order 54. Under Order 54, explicit regulatory requirements were introduced to distributors of medical devices. For example, Order 54 requires medical device distributors to establish a quality management system, adopt quality control measures covering the total process of distribution, and submit annual self-inspection reports to local relevant Medical Product Administrations.

- Good Practices for Medical Device Clinical Trials

On May 1, 2022, a revised version of the Good Practices for Medical Device Clinical Trials (“2022 Medical Device GCP”), jointly released by the NMPA and the National Health Commission, came into effect. Going forward, all medical device clinical trials that haven’t passed ethical review by May 1, 2022 should be conducted in compliance with the 2022 Medical Device GCP, if they are conducted for purpose of applying for medical device registration. The 2022 Medical Device GCP specifies responsibilities of each party participating in a medical device clinical trial, in particular the responsibilities of the sponsor. The 2022 Medical Device GCP no longer requires clinical trials of medical devices to be conducted in two or more clinical trial institutions. This will make it easier for medical device companies to conduct medical device registration studies.

## **Amendment to the Implementation Regulation of the Drug Administration Law of the People’s Republic of China**

On May 9, 2022, the NMPA published a comprehensive draft Amendment to the Implementation Regulations of the PRC Drug Administration Law (the “Draft DAL Implementing Regulations”) for public comment. The Draft DAL Implementing Regulations introduced changes to the regulatory framework and aimed to codify certain regulatory initiatives implemented by the Chinese government since the promulgation of the current PRC Drug Administration Law in 2019 (the “DAL”).

The Draft DAL Implementing Regulations propose to extend the reach of the DAL to offshore development and manufacturing activities of pharmaceutical companies to the extent that the pharmaceutical companies would like to obtain marketing authorizations for their drug products in mainland China. All overseas R&D activities and production activities concerning a drug to be marketed in mainland China and/or already marketed in mainland China should be carried out in compliance with the regulatory requirements specified in applicable Chinese laws, regulations, rules, standards, and specifications.

# MANAGEMENT DISCUSSION AND ANALYSIS

Patent linkage and regulatory data protection have been included in the Draft DAL Implementing Regulations. The Draft DAL Implementing Regulations propose to grant market exclusivity with a specified period to first-to-market generic drug contributing to the invalidity of relevant drug patent.

## PRC Anti-Monopoly Law

On June 24, 2022, the Standing Committee of the National People's Congress published amendments to the PRC Anti-Monopoly Law (the "AML"), which came into effect on August 1, 2022. The amended AML formally implements China's latest anti-monopoly policies by, among other things, improving regulatory rules for anti-competitive agreements, expressly addressing monopoly issues in the platform economy, and substantially increasing the penalties for violating the law.

The improvements to the regulatory rules for anti-competitive agreements made by the amended AML mainly include: (i) expressly stipulating that an agreement which fixes or limits resale prices, that is, a vertical anti-competitive agreement, is not prohibited if relevant business operators can prove that such agreement does not have the effect of eliminating or restricting competition; (ii) formally provides the "safe harbor" regime which stipulates that a vertical anti-competitive agreement is not prohibited, if the parties' market share in the relevant market is lower than the market share percentage set by the anti-monopoly enforcement agency and other conditions established by the anti-monopoly enforcement agency are met; and (iii) codifies that business operators shall not organize other business operators to reach a monopoly agreement or provide substantial assistance for other business operators to reach a monopoly agreement.

The amended AML formally extends the anti-monopoly regulatory regime to the platform economy by outlining the general principal that business operators shall not engage in monopolistic activities, such as by taking advantage of data and algorithms, technology, capital advantage, and platform rules. The amended AML also specifically prohibits business operators from abusing market dominance, such as by using data and algorithms, technology, and platform rules.

Penalties for violation of the AML have been substantially increased by the amended AML. For example, according to the amended AML, if a company completes a concentration of business in violation of the AML that will have or is likely to have the effect of eliminating or restricting competition, in addition to other remedial measures, a fine of up to 10% of the last year's sales revenue may be imposed. If the concentration of business in violation of the AML completed by the company does not have the effect of eliminating or restricting competition, a fine of up to RMB5 million may be imposed. In the case that the aforementioned violation has particularly serious circumstances, bad impact, or consequences, the fine imposed may be further increased to between two and five times the aforementioned fine amount.

## Cross-Border Data Transfers

### *Measures on Security Assessment of Cross-Border Data Transfer*

On July 7, 2022, the Cyberspace Administration of China ("CAC") issued the Measures on Security Assessment of Cross-Border Data Transfer (the "Security Assessment Measures"), which set out a security assessment framework for cross-border data transfers out of mainland China as well as ground rules for a security assessment filing for cross-border data transfers which was stipulated in the PRC Cybersecurity Law ("CSL") and the PRC Personal Information Protection Law ("PIPL").

# MANAGEMENT DISCUSSION AND ANALYSIS

A security assessment will be triggered if a cross-border data transfer out of mainland China falls into any of the following scenarios: (i) transfer of important data by data processors; (ii) transfer of personal information (“PI”) by critical information infrastructure operators (“CIIOs”) and data processors that process PI of more than one million individuals; (iii) transfer of PI by data processors that have transferred either PI of over 100,000 individuals or sensitive PI of over 10,000 individuals abroad since January 1 of the preceding year; and (iv) other situations as determined by the CAC. According to statements by the CAC, a cross-border data transfer includes (i) an outbound transfer and overseas storage of data collected and generated during a data processor’s operation in mainland China; and (ii) a remote access or use of data collected and generated by a data processor stored within mainland China by overseas institutions, organizations, and individuals.

Prior to applying for a security assessment with the CAC, data processors are required to carry out a self-risk assessment, which needs to be presented to the CAC along with an application filing and other required materials for a security assessment. During a security assessment, the CAC will primarily focus on risks to national security, public interests, and the legitimate rights and interests of individuals or organizations that such cross-border data transfer may cause. A cross-border data transfer of relevant data will not be allowed if the CAC does not approve the security assessment filing. Once the CAC approves the security assessment filing, such approval will remain valid for two years and may be renewed. An application for security assessment needs to be re-submitted if there is a change in the cross-border data transfer that may affect the security of the exported data, such as changes in the purpose, method, scope, and type of the exported data and changes in the purpose and method of the processing of the exported data by overseas recipients.

The Security Assessment Measures have retroactive effect for cross-border data transfers out of mainland China of relevant data conducted prior to their effective date on September 1, 2022. If a data processor fails to complete its security assessment for any of its cross-border data transfers of relevant data out of mainland China prior to the effective date of the Security Assessment Measures, it needs to rectify the failure within six months after the effective date of the Security Assessment Measures.

## *Specification for Certification of Personal Information Cross-Border Processing Activities*

On June 24, 2022, the National Information Security Standardization Technical Committee issued Guidance on Network Security Standardized Practice — Specification for Certification of Personal Information Cross-Border Processing Activities (the “Certification Specification”), which serves as an industry standard. The Certification Specification provides that PI processors may apply for a personal information protection certification (a “PIPC”) from certain qualified institutions, pursuant to which PI processors, provided that the requirements stipulated by PIPL are met, may rely on a PIPC to comply with cross-border PI transfer requirements when engaging in (i) intra-group cross-border transfers within a multinational company or subsidiaries or affiliated companies of an economic /business entity, or (ii) data processing activities conducted outside of mainland China involving PI of individuals located in mainland China subject to the extra-territorial jurisdiction of the PIPL.

The PI processors involved in PI cross-border activities shall carry out a prior self-risk assessment focusing on whether the cross-border PI transfer is legitimate, justifiable, and necessary and the security protection measures taken are effective and appropriate to the degree of risks. A self-risk assessment must include the following factors: (i) whether the cross-border PI transfer complies with applicable laws and administrative regulations; (ii) the impact on the rights and interests of PI subjects, particularly the impact of the legal environment and network security environment of the foreign countries and regions; and (iii) other matters necessary to safeguard the rights and interests in relation to PI.

# MANAGEMENT DISCUSSION AND ANALYSIS

The list of qualified institutions for PIPC has not been released to date, and therefore, it is not yet possible for companies to rely on a PIPC to legitimize their cross-border data transfers.

## *Standard Contract for Cross-Border PI Transfer and Accompanying Regulations*

On June 30, 2022, the CAC issued for public consultation draft Regulations on the Standard Contract for Cross-Border Transfer of Personal Information, which introduced a draft standard contract for the cross-border transfer of PI outside of mainland China (the “PRC SC”). The PRC SC clarifies terms and conditions to be agreed on between a PI processor as a data exporter and an overseas recipient as a data importer with respect to cross-border data transfers of PI out of mainland China. When finalized, the PRC SC can be used to comply with requirements under the PIPL for cross-border data transfers of PI out of mainland China that do not need to undergo a security assessment.

When finalized, a PI processor may enter into the PRC SC and provide it along with other required materials to relevant governmental authorities for filing to ensure the legality of a cross-border transfer out of mainland China if the following conditions are satisfied: the PI processor (i) is not a CIIO; (ii) processes PI of fewer than 1 million individuals; (iii) has provided PI of fewer than 100,000 individuals overseas in aggregate since January 1 of the preceding year; and (iv) has provided sensitive PI of fewer than 10,000 individuals overseas in aggregate since January 1 of the preceding year.

The PRC SC imposes certain obligations on the parties of such cross-border PI transfers to protect the interests of PI subjects, including, for example, (i) data exporters are required to use reasonable efforts to ensure data importers have adequate technical and organizational measures to ensure secure processing and have relevant capabilities to fulfill their obligations relating to the data transfer, and (ii) the parties of such cross-border transfer are required to ensure that the rights and interests of data subjects are well recognized in practice (and data subjects’ inquiries are promptly responded to), as such data subjects are considered third-party beneficiaries of the PRC SC.

## **Factors Affecting Our Results of Operations**

### **Research and Development Expenses**

We believe our ability to successfully develop product candidates will be the primary factor affecting our long-term competitiveness, as well as our future growth and development. Developing high quality product candidates requires a significant investment of resources over a prolonged period of time, and a core part of our strategy is to continue making sustained investments in this area. As a result of this commitment, our pipeline of product candidates has been advancing and expanding, with twelve late-stage clinical product candidates being investigated as of June 30, 2022.

We have financed our activities primarily through private placements, our initial public offering on Nasdaq in September 2017, multiple follow-on offerings, and a secondary listing on the Hong Kong Stock Exchange in September 2020. Through June 30, 2022, we have raised approximately \$164.6 million from private equity financing and approximately \$2,462.7 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us from our initial public offering, follow-on offerings, and secondary listing. Our operations have consumed substantial amounts of cash since inception. The net cash used in our operating activities was \$132.0 million and \$235.3 million for the six months ended June 30, 2022 and 2021, respectively. We expect our expenditures to increase significantly in connection with our ongoing activities, particularly as we advance the clinical development of our twelve

# MANAGEMENT DISCUSSION AND ANALYSIS

late-stage clinical product candidates, research and develop our clinical- and pre-clinical-stage product candidates, and initiate additional clinical trials of, and seek regulatory approval for, these and other future product candidates. We review such expenditures for prioritization and efficiency purposes. These expenditures include:

- expenses incurred for contract research organizations (“CROs”), contract manufacture organizations (“CMOs”), investigators, and clinical trial sites that conduct our clinical studies;
- employee compensation related expenses, including salaries, benefits, and equity compensation expenses;
- expenses for licensors;
- the cost of acquiring, developing, and manufacturing clinical study materials;
- facilities and other expenses, which include office leases and other overhead expenses;
- costs associated with pre-clinical activities and regulatory operations;
- expenses associated with the construction and maintenance of our manufacturing facilities; and
- costs associated with operating as a public company.

The Company is in the process of evaluating its development programs and is developing a series of recommendations for prioritizing these programs to concentrate our resources on programs that have the greatest potential to beneficially impact patients, strengthen our global competitiveness, and provide long-term sustainability.

## **Selling, General, and Administrative Expenses**

Our selling, general, and administrative expenses consist primarily of personnel compensation and related costs, including share-based compensation for commercial and administrative personnel. Other selling, general, and administrative expenses include product distribution and promotion costs, professional service fees for legal, intellectual property, consulting, auditing, and tax services as well as other direct and allocated expenses for rent and maintenance of facilities, insurance, and other supplies used in selling, general, and administrative activities. We anticipate that our selling, general, and administrative expenses will increase in future periods to support increases in our commercial and research and development activities and as we continue to commercialize, develop, and manufacture our products and assets. These increases will likely include increased headcount, increased share-based compensation charges, increased product distribution and promotion costs, expanded infrastructure, and increased costs for insurance. We also anticipate incurring additional legal, compliance, accounting, and investor and public relations expenses associated with being a public company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Our Ability to Commercialize Our Product Candidates

As of June 30, 2022, twelve of our product candidates are in late-stage clinical development and various others are in clinical and pre-clinical development in Greater China and the United States. Our ability to generate revenue from our product candidates is dependent on our receipt of regulatory approvals for and successful commercialization of such products, which may not occur. Certain of our product candidates may require additional pre-clinical and/or clinical development, regulatory approvals in multiple jurisdictions, manufacturing supply, substantial investment, and significant marketing efforts before we generate any revenue from product sales.

## Our License Arrangements

Our results of operations have been, and we expect them to continue to be, affected by our licensing, collaboration, and development agreements. We are required to make upfront payments upon our entry into such agreements and milestone payments upon the achievement of certain development, regulatory, and commercial milestones for the relevant products under these agreements as well as tiered royalties based on the net sales of the licensed products. These accruals for upfront and milestone payments are recorded in research and development expenses and were \$10.4 million for the six months ended June 30, 2022 and \$269.2 million for the six months ended June 30, 2021.

## COVID-19 Impact and Related Risks

Our business operations and those of our suppliers, CROs, CMOs, and other contractors and third parties on which we rely — as well as the Chinese economy more broadly — have been, and may continue to be, adversely affected by the effects of the COVID-19 pandemic and government measures taken in response, such as travel bans and restrictions, quarantines, shelter-in-place or stay-at home orders, and business shutdowns.

The effects of the COVID-19 pandemic and restrictive quarantine measures imposed by the Chinese government in response, especially between March and May 2022, have adversely affected our business, and may continue to adversely affect our business, perhaps significantly, for the remainder of this fiscal year and beyond, depending on the nature, severity, and duration of the ongoing effects of the COVID-19 pandemic, particularly in mainland China where our operations are primarily located.

Specifically, the COVID-19 pandemic has adversely impacted our operations, business, and financial results, including our manufacturing and supply chain, our and our partners' sales, marketing, and clinical trial operations, and our ability to advance our research and development activities and pursue the development of our pipeline products. We expect some residual revenue impacts from the lockdown measures in mainland China from March 2022 to May 2022 to be reflected in our results for the second half of 2022. Although so far none of our NDA submissions and acceptances, key clinical development milestones, or clinical trial application approvals have been materially delayed, there is no guarantee this will continue to be the case.

# MANAGEMENT DISCUSSION AND ANALYSIS

Additionally, the COVID-19 government restrictions and shutdown orders — those currently in effect and those which may be imposed in the future — may cause us or our commercial partners, licensors, and CMOs to experience delays or interruptions in the ability to manufacture and supply the products we are selling commercially in Greater China. These and other government restrictions may limit our and our distributors' ability to successfully sell our commercial products in Greater China, even if we implement contingency plans. Any or all of these adverse effects arising from COVID-19 may adversely affect our business and results of operations this year, and perhaps beyond, or cause the value of the Company to decline, potentially limiting our ability to obtain additional financing on terms acceptable to the Company.

COVID-19 government restrictions and lockdown orders, including those requiring our employees to work from their homes or preventing our executives from traveling to or from mainland China, Hong Kong, and the United States, could also negatively affect our business, such as through absenteeism or employee turnover, other operational disruptions, or increased risk of a cybersecurity incident.

There are no comparable recent events that provide guidance as to the effect the COVID-19 outbreak as a global pandemic may have and, as a result, the ultimate impact of the pandemic is highly uncertain and subject to change, and the actual effects on our business and results of operations will depend on many factors beyond our control.

## FUTURE AND OUTLOOK

Our vision is to become a leading global biopharmaceutical company, discovering, developing, manufacturing, and commercializing our portfolio to positively impact human health worldwide. For the remainder of the year, our corporate priorities include the following:

1. Seek to accelerate important data readouts and regulatory filings across our entire portfolio. For example, we plan to discuss the regulatory pathway for Repotrectinib with the NMPA at a pre-NDA meeting in the fourth quarter of 2022. We also plan to initiate a pivotal study for CLN-081 following the completion of a pharmacokinetic food effect study in 2022. With respect to Sulbactam-Durlobactam (SUL-DUR), submission of an NDA to the FDA is expected in the third quarter of 2022, and we expect to submit an NDA to the NMPA in the fourth quarter of 2022.
2. Continue to invest in R&D and advance our internal pipeline with global rights. Specifically, we plan to advance ZL-1102 (anti-IL-17A Humabody®) into full global development and to initiate a global Phase 2 study for chronic plaque psoriasis in the fourth quarter of 2022.
3. Leverage our position in Greater China to continue increasing our revenue base and to source innovation internally and externally with potentially transformative assets and partnership opportunities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Results of Operations

The following table summarizes our results of operations for the six months ended June 30, 2022 and 2021 (in thousands, except percentages):

	Six Months Ended June 30,		Change	
	2022	2021	\$	%
Revenues:				
Product revenue, net	<b>93,670</b>	57,038	36,632	64 %
Collaboration revenue	<b>1,230</b>	—	1,230	100 %
Total revenues	<b>94,900</b>	57,038	37,862	66 %
Expenses:				
Cost of sales	<b>(33,051)</b>	(18,373)	(14,678)	80 %
Research and development	<b>(119,938)</b>	(346,076)	226,138	(65)%
Selling, general, and administrative	<b>(120,392)</b>	(90,252)	(30,140)	33 %
Loss from operations	<b>(178,481)</b>	(397,663)	219,182	(55)%
Interest income	<b>1,363</b>	458	905	198 %
Other income (expenses), net	<b>(42,988)</b>	1,179	(44,167)	(3,746)%
Loss before income tax and share of loss				
from equity method investment	<b>(220,106)</b>	(396,026)	175,920	(44)%
Income tax expense	—	—	—	— %
Share of loss from equity method investment	<b>(221)</b>	(208)	(13)	6 %
Net loss	<b>(220,327)</b>	(396,234)	175,907	(44)%
Net loss attributable to ordinary shareholders	<b>(220,327)</b>	(396,234)	175,907	(44)%

#### Revenues

##### Product Revenue, net

Our product revenue is primarily derived from the sales of ZEJULA, Optune, QINLOCK, and NUZYRA in mainland China and Hong Kong. Sales rebates are offered to distributors in mainland China and the amounts are recorded as a reduction of revenue. Estimated rebates are determined based on contracted rates, sales volumes, and level of distributor inventories.

The Company lowered the selling price of ZEJULA due to its inclusion in the NRDL for certain therapies. Accordingly, the Company accrued \$2.9 million and \$22.0 million for sales rebates as compensation to distributors for those products previously sold at the price prior to the NRDL implementation during the six months ended June 30, 2022 and 2021, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

QINLOCK and NUZYRA are also scheduled to enter negotiations with the National Healthcare Security Administration regarding potential inclusion in the NRDL, and in June 2022, the Company lowered the selling price for these products. Accordingly, the Company accrued \$2.7 million and \$0.2 million for sales rebates as compensation to distributors previously sold at the price prior to the reduction during the six months ended June 30, 2022 for QINLOCK and NUZYRA, respectively.

In addition, between March 2022 and May 2022, a number of government restrictions or lockdown measures were imposed in Greater China to help control the spread of COVID-19, including in some large cities like Shanghai. These government restrictions or lockdown measures caused some patients to have limited or no access to ZEJULA, Optune, QINLOCK, or NUZYRA, which had a negative impact on our revenue. Although the revenue impact was modest in the second quarter of 2022, we expect some residual revenue impacts in the second half of 2022. For more information on risks related to the COVID-19 pandemic, see “COVID-19 Impact and Related Risks” above.

The following table presents net revenue by product for the six months ended June 30, 2022 and 2021(in thousands, except percentages):

	Six Months Ended June 30,		Change	
	2022	2021	\$	%
ZEJULA	63,649	35,972	27,677	77 %
Optune	24,389	16,665	7,724	46 %
QINLOCK	3,582	4,401	(819)	(19)%
NUZYRA	2,050	—	2,050	— %
Total product revenue, net	93,670	57,038	36,632	64 %

## Collaboration revenue

Collaboration revenue increased by \$1.2 million for the six months ended June 30, 2022 from nil for the six months ended June 30, 2021. These increases were due to our collaborative arrangement with Huizheng (Shanghai) Pharmaceutical Technology Co., Ltd.

## Cost of Sales

Cost of sales increased by \$14.7 million to \$33.1 million for the six months ended June 30, 2022 from \$18.4 million for the six months ended June 30, 2021. These increases were primarily due to increasing sales volume, higher product costs, and higher royalties.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Research and Development Expenses

The following table sets forth the components of our research and development expenses for the six months ended June 30, 2022 and 2021 (in thousands, except percentages):

	Six Months Ended June 30,		Change	
	2022	2021	\$	%
<b>Research and development expenses:</b>				
Personnel compensation and related costs	\$ 51,847	\$ 29,979	\$ 21,868	73 %
Licensing fees	10,436	269,248	(258,812)	(96)%
CROs/CMOs/Investigators expenses	46,918	35,144	11,774	34 %
Other costs	10,737	11,705	(968)	(8)%
<b>Total</b>	<b>\$ 119,938</b>	<b>\$ 346,076</b>	<b>\$ (226,138)</b>	<b>(65)%</b>

Research and development expenses decreased by \$226.1 million to \$119.9 million for the six months ended June 30, 2022 from \$346.1 million for the six months ended June 30, 2021 primarily due to:

- a decrease of \$258.8 million in licensing fees as we recorded no upfront payments for licensing agreements; partially offset by
- an increase of \$21.9 million in personnel compensation and related costs primarily attributable to increased employee compensation costs due to headcount growth and the grants of new share options and restricted shares and the continued vesting of those awards during the six months ended June 30, 2022; and
- an increase of \$11.8 million in CROs/CMOs/Investigators expenses related to ongoing and newly initiated clinical trials in the six months ended June 30, 2022.

The following table summarizes our research and development expenses by program for the six months ended June 30, 2022 and 2021 (in thousands, except percentages):

	Six Months Ended June 30,		Change	
	2022	2021	\$	%
<b>Research and development expenses:</b>				
Clinical programs	\$ 56,444	\$ 279,689	\$ (223,245)	(80)%
Pre-clinical programs	4,222	31,045	(26,823)	(86)%
Unallocated research and development expenses	59,272	35,342	23,930	68 %
<b>Total</b>	<b>\$ 119,938</b>	<b>\$ 346,076</b>	<b>\$ (226,138)</b>	<b>(65)%</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

Research and development expenses attributable to clinical programs decreased by \$223.2 million to \$56.4 million for the six months ended June 30, 2022 from \$279.7 million during the six months ended June 30, 2021. Research and development expenses attributable to pre-clinical programs decreased by \$26.8 million to \$4.2 million for the six months ended June 30, 2022 from \$31.0 million during the six months ended June 30, 2021. Those decreases were driven by decreased license fees.

Although we manage our external research and development expenses by program, we do not allocate our internal research and development expenses by program because our employees and internal resources may be engaged in projects for multiple programs at any given time.

## Selling, General, and Administrative Expenses

The following table summarizes our selling, general, and administrative expenses by program for the six months ended June 30, 2022 and 2021 (in thousands, except percentages):

	Six Months Ended June 30,		Change	
	2022	2021	\$	%
<b>Selling, General, and Administrative Expenses:</b>				
Personnel compensation and related costs	\$ 79,523	\$ 53,472	\$ 26,051	49 %
Professional service fees	15,505	8,389	7,116	85 %
Other costs	25,364	28,391	(3,027)	(11)%
<b>Total</b>	<b>\$ 120,392</b>	<b>\$ 90,252</b>	<b>\$ 30,140</b>	<b>33 %</b>

Selling, general, and administrative expenses increased by \$30.1 million to \$120.4 million for the six months ended June 30, 2022 from \$90.3 million for the six months ended June 30, 2021 primarily due to:

- an increase of \$26.1 million in personnel compensation and related costs which was primarily attributable to increased commercial and administrative personnel costs due to headcount growth and grants of new share options and restricted shares and the continued vesting of those awards during the six months ended June 30, 2022; and
- an increase of \$7.1 million in professional service fees mainly attributable to our increased legal, compliance, accounting, and investor and public relations expenses associated with being a public company and in connection with sales of ZEJULA, Optune, QINLOCK, and NUZYRA in mainland China and Hong Kong after our commercial launch of these four commercialized products; those increases were partially offset by
- a decrease of \$3.0 million in other costs mainly related to selling, rental, and administrative expenses primarily for the commercial operation in mainland China, Hong Kong, and Taiwan.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Interest Income

Interest income was \$1.4 million and \$0.5 million for the six months ended June 30, 2022 and 2021, respectively.

## Other Income (Expenses), Net

Other income (expenses), net decreased by \$44.2 million to \$43.0 million of net expense for the six months ended June 30, 2022 from \$1.2 million of net income for the six months ended June 30, 2021 primarily as a result of an increase in foreign exchange loss of \$33.5 million and an equity investment loss in MacroGenics of \$12.6 million, partially offset by an increase in governmental subsidies of \$1.5 million.

## Discussion of Certain Key Balance Sheet Items

### Cash, cash equivalents, restricted cash, and short-term investments

As of June 30, 2022, the Company's cash, cash equivalents, restricted cash, and short-term investments primarily comprised of (1) approximately \$1,187.6 million denominated in U.S. dollars; (2) approximately RMB425.2 million (equivalent to approximately \$63.4 million) denominated in Renminbi; and (3) approximately \$5.9 million denominated in Hong Kong dollar, Australian dollar, and Taiwan dollar.

### Accounts receivable

Accounts receivable decreased by 43.0% from \$47.5 million as of December 31, 2021 to \$27.1 million as of June 30, 2022, primarily due to the collection of receivable from Huizheng (Shanghai) Pharmaceutical Technology Co., Ltd. of RMB70.0 million (\$11.0 million) for the upfront payment and the acceleration of the collection of receivables from our customers for the six months ended June 30, 2022.

### Inventories

The inventories increased by 23.2% from \$19.0 million as of December 31, 2021 to \$23.3 million as of June 30, 2022, mainly because we built up the inventory balance in anticipation of increasing sales in mainland China.

### Property and equipment, net

The property and equipment increased by 7.7% from \$43.1 million as of December 31, 2021 to \$46.4 million as of June 30, 2022, primarily attribute to our on-going buildout of the Suzhou manufacturing facility, expansion of business development, and research and development activities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Accounts payable

Accounts payable includes amounts due to third parties and totaled \$108.4 million and \$126.2 million as of June 30, 2022 and December 31, 2021, respectively.

The following table sets forth an aging analysis of accounts payable as of the dates indicated, which is based on invoice date (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	\$	\$
Within 3 months	<b>107,498</b>	125,709
3 months to 6 months	<b>731</b>	416
6 months to 1 year	<b>199</b>	22
Over 1 year	<b>15</b>	16
<b>Total</b>	<b>108,443</b>	126,163

## Other current liabilities

The following table presents the Company's other current liabilities as of June 30, 2022 and December 31, 2021 (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	\$	\$
Payroll	<b>18,976</b>	25,685
Accrued rebate to distributors	<b>11,249</b>	15,001
Tax payables	<b>9,896</b>	8,817
Accrued professional service fee	<b>6,450</b>	4,319
Other	<b>5,827</b>	4,421
Payables for purchase of property and equipment	<b>1,212</b>	2,568
<b>Total</b>	<b>53,610</b>	60,811

Other current liabilities decreased by 11.8% from \$60.8 million as of December 31, 2021 to \$53.6 million as of June 30, 2022. The decrease was primarily due to payment of bonus.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Liquidity and Capital Resources

The following table represents our cash and cash equivalents and short-term investments as of June 30, 2022 and December 31, 2021 (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	<b>\$</b>	\$
Cash and cash equivalents	<b>680,820</b>	964,100
Short-term investments	<b>575,274</b>	445,000

We have financed our activities primarily through private placements, our September 2017 initial public offering on Nasdaq, various follow-on offerings, and our September 2020 secondary listing on the Hong Kong Stock Exchange of our ordinary shares and/or ADSs. Through June 30, 2022, we have raised approximately \$164.6 million from private equity financing and approximately \$2,462.7 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us from our initial public offering, secondary listing, and subsequent follow-on offerings.

Our operations have consumed substantial amounts of cash since inception. The net cash used in our operating activities was \$132.0 million and \$235.3 million for the six months ended June 30, 2022 and 2021, respectively. We have commitments for capital expenditure of \$19.5 million as of June 30, 2022, mainly for the purpose of plant construction and installation. We currently are not aware of any events that are reasonably likely to cause a material change in the relationship between our costs and revenues.

As of June 30, 2022, we had cash, cash equivalents, restricted cash, and short-term investments of \$1,256.9 million. Our expenditures are principally focused on research and development and are largely discretionary. Based on our current operating plan, we expect that our cash, cash equivalents, restricted cash, and short-term investments will enable us to fund our operating expenses and capital expenditures requirements for at least the next 12 months. However, in order to bring to fruition our research and development objectives, we will ultimately need additional funding sources, and there can be no assurances that they will be made available.

The following table provides information regarding our cash flows for the six months ended June 30, 2022 and 2021 (in thousands):

	<b>Six Months Ended June 30,</b>		<b>Change</b>
	<b>2022</b>	2021	\$
Net cash used in operating activities	<b>\$ (132,027)</b>	\$ (235,348)	\$ 103,321
Net cash (used in) provided by investing activities	<b>(143,869)</b>	737,828	(881,697)
Net cash (used in) provided by financing activities	<b>(2,240)</b>	820,949	(823,189)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	<b>(5,144)</b>	1,028	(6,172)
Net (decrease) increase in cash, cash equivalents and restricted cash	<b>\$ (283,280)</b>	\$ 1,324,457	\$ (1,607,737)

# MANAGEMENT DISCUSSION AND ANALYSIS

## Net Cash Used in Operating Activities

During the six months ended June 30, 2022, our operating activities used \$132.0 million of cash, which resulted principally from our net loss of \$220.3 million, adjusted for non-cash charges of \$45.9 million, and cash used in our operating assets and liabilities of \$42.4 million.

During the six months ended June 30, 2021, our operating activities used \$235.3 million of cash, which resulted principally from our net loss of \$396.2 million, adjusted for non-cash charges of \$85.9 million, and cash provided in our operating assets and liabilities of \$75.0 million.

## Net Cash (Used in) Provided by Investing Activities

Net cash used in investing activities was \$143.9 million for the six months ended June 30, 2022 compared to net cash provided by investing activities of \$737.8 million for the six months ended June 30, 2021. The shift from cash provided by to cash used in investing activities was primarily due to a decrease of \$613.9 million in proceeds from the maturity of short-term investments, an increase of \$260.3 million in purchases of short-term investments, and an increase of \$7.8 million from purchases of property and equipment during the six months ended June 30, 2022 compared to the six months ended June 30, 2021.

## Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities was \$2.2 million for the six months ended June 30, 2022 compared to net cash provided by financing activities of \$820.9 million for the six months ended June 30, 2021. The shift from cash provided by to cash used in financing activities was primarily because we had proceeds of \$818.9 million from our issuance of ordinary shares upon public offerings during the six months ended June 30, 2021 while there were no such transactions during the six months ended June 30, 2022.

## Effect of Exchange Rates on Cash

We have substantial operations in mainland China, which generate a significant amount of RMB-denominated cash from product sales and require a significant amount of RMB-denominated cash to pay our obligations. Since the reporting currency of the Company is the U.S. dollar, periods of volatility in exchange rates may have a significant impact on our consolidated cash balances.

## Operating Capital Requirements

We expect our expenses to increase significantly in connection with our ongoing activities, particularly as we continue to commercialize our approved products, continue our research and development efforts related to our clinical and pre-clinical-stage product candidates, and initiate additional clinical trials of, and seek and/or expand regulatory approval for, ZEJULA, Optune, QINLOCK, NUZYRA, and our other products and product candidates. In addition, if we obtain regulatory approval for any additional product candidates, we expect to incur significant commercialization expenses related to product manufacturing, marketing, sales, and distribution. In particular, if more of our product candidates are approved, additional costs may be substantial as we may have to, among other things, modify or increase the production capacity at our current manufacturing facilities or contract with third-party

# MANAGEMENT DISCUSSION AND ANALYSIS

manufacturers and increase our commercial workforce. We have incurred, and may continue to incur, expenses as we create additional infrastructure to support our operations. Our liquidity and financial condition may be materially and adversely affected by negative net cash flows, and we cannot assure that we will have sufficient cash from other sources to fund our operations. Accordingly, we will likely need to obtain substantial additional funding in connection with our continuing operations through public or private equity offerings, debt financing, collaborations or licensing arrangements, or other sources. If we are unable to raise capital when needed or on acceptable terms, we could incur losses and be forced to delay, reduce, or terminate our research and development programs or any future commercialization efforts.

Our future capital requirements will depend on many factors, including:

- the cost and timing of future commercialization activities for ZEJULA, Optune, QINLOCK, NUZYRA, and any other product candidates for which we receive regulatory approval;
- the pricing of and product revenues received, if any, from future commercial sales of our approved products and any other products for which we receive regulatory approval;
- the scope, progress, timing, results, and costs of clinical development of our products in additional indications, if any;
- the scope, progress, timing, results, and costs of researching and developing our product candidates and conducting pre-clinical and clinical trials;
- the cost, timing, and outcome of seeking, obtaining, maintaining, and expanding regulatory approval of our products and product candidates;
- our ability to establish and maintain strategic partnerships, collaboration, licensing, or other arrangements and the economic and other terms, timing, and success of such arrangements;
- the cost, timing, and outcome of preparing, filing, and prosecuting patent applications, maintaining and enforcing our intellectual property rights, and defending any intellectual property related claims;
- the extent to which we acquire or in-license other product candidates and technologies and the economic and other terms, timing, and success of such collaboration and licensing arrangements;
- cash requirements of any future acquisitions;
- the number, characteristics, and development requirements of the product candidates we pursue;
- resources required to develop and implement policies and processes to promote ongoing compliance with applicable healthcare laws and regulations;

# MANAGEMENT DISCUSSION AND ANALYSIS

- costs required to verify that our and our partners' business arrangements with third parties comply with applicable healthcare laws and regulations;
- our headcount growth and associated costs; and
- the costs of operating as a public company in both the United States and Hong Kong.

## Contractual Obligations and Commitments

As of June 30, 2022, purchase commitments amounted to \$19.5 million, which is related to purchase of property and equipment contracted and expected to be incurred within one year. We do not have any other purchase commitments beyond one year.

## Credit Risk

Financial instruments that are potentially subject to significant concentration of credit risk consist of cash and cash equivalents, short-term investments, accounts receivable, and notes receivable.

The carrying amounts of cash and cash equivalents and short-term investments represent the maximum amount of loss due to credit risk. We had cash and cash equivalents of \$680.8 million and \$964.1 million and short-term investments of \$575.3 million and \$445.0 million as of June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022 and December 31, 2021, all of our cash and cash equivalents and short-term investments were held by major financial institutions located in mainland China and international financial institutions outside of mainland China which we believe are of high credit quality and for which we monitor the credit worthiness periodically.

Accounts receivable are typically unsecured and are derived from product sales and collaborative arrangements. We manage credit risk of accounts receivable through ongoing monitoring of the outstanding balances and limit the amount of credit extended based upon payment history and the debtor's current credit worthiness. Historically, we have collected these receivables from customers within the credit terms with no significant credit losses incurred. As of June 30, 2022, our two largest debtors collectively accounted for approximately 35% of our total accounts receivable.

Certain accounts receivable balances are settled in the form of notes receivable. As of June 30, 2022, such notes receivable included bank acceptance promissory notes that are non-interest bearing and due within six months. These notes receivable were used to collect the receivables based on an administrative convenience, given these notes are readily convertible to known amounts of cash. In accordance with the sales agreements, whether to use cash or bank acceptance promissory notes to settle the receivables is at our discretion, and this selection does not impact the agreed contractual purchase prices.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Foreign Currency Exchange Rate Risk

Renminbi, or RMB, is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China ("PBOC"), controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Company included aggregated amounts of RMB425.2 million and RMB151.7 million, which were denominated in RMB, representing 9% and 2% of the cash and cash equivalents, as of June 30, 2022 and December 31, 2021, respectively.

Our business mainly operates in mainland China with a significant portion of our transactions settled in RMB, and our financial statements are presented in U.S. dollars. We do not believe that we currently have significant direct foreign exchange risk and have not used derivative financial instruments to hedge our exposure to such risk. Although, in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the RMB because the value of our business is effectively denominated in RMB, while ADSs will be traded in U.S. dollars.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in Greater China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the Chinese government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the revised policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in a more than 20% appreciation of the RMB against the U.S. dollar in the following three years. Between July 2008 and June 2010, this appreciation halted, and the exchange rate between the RMB and U.S. dollar remained within a narrow band. In June 2010, the PBOC announced that the Chinese government would increase the flexibility of the exchange rate, and thereafter allowed the RMB to appreciate slowly against the U.S. dollar within the narrow band fixed by the PBOC. However, in August 2015, the PBOC significantly devalued the RMB.

The value of our ADSs and our ordinary shares will be affected by the foreign exchange rates between U.S. dollars, HK dollars, and the RMB. For example, to the extent that we need to convert U.S. dollars or HK dollars into RMB for our operations or if any of our arrangements with other parties are denominated in U.S. dollars or HK dollars and need to be converted into RMB, appreciation of the RMB against the U.S. dollar or the HK dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars or HK dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar or the HK dollar against the RMB would have a negative effect on the conversion amounts available to us.

Since 1983, the Hong Kong Monetary Authority ("HKMA") has pegged the HK dollar to the U.S. dollar at the rate of approximately HK\$7.80 to US\$1.00. However, there is no assurance that the HK dollar will continue to be pegged to the U.S. dollar or that the HK dollar conversion rate will remain at HK\$7.80 to US\$1.00. If the HK dollar conversion rate against the U.S. dollar changes and the value of the HK dollar depreciates against the U.S. dollar, our assets denominated in HK dollars will be adversely affected. Additionally, if the HKMA were to repeg the HK dollar to, for example, the RMB rather than the U.S. dollar, or otherwise restrict the conversion of HK dollars into other currencies, then our assets denominated in HK dollars will be adversely affected.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Inflation**

In recent years, mainland China has not experienced significant inflation and thus inflation has not had a material impact on our results of operations. However, the global economy, including the U.S. economy, has experienced rising inflation in recent quarters. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation.

## **Off-Balance Sheet Arrangements**

During the periods presented, we did not have, and we do not currently have, any off-balance sheet arrangements, as defined under the rules of the SEC, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheets.

## **Gearing Ratio**

The gearing ratio of the Company, which was calculated by dividing total interest-bearing loans by total shareholders' equity as of the end of the period, were both nil as of June 30, 2022 and December 31, 2021 because we do not have any interest-bearing loans.

## **Significant Investments Held**

Except as disclosed in Note 2 of the unaudited interim condensed consolidated financial statements, we did not hold any other significant investments during the six months ended June 30, 2022 and the year ended December 31, 2021.

## **Future Plans for Material Investments and Capital Assets**

We had no future plans for material investments or capital assets as of June 30, 2022.

## **Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies**

During the six months ended June 30, 2022, we did not have any material acquisitions and disposals of subsidiaries or affiliated companies.

## **Employee and Remuneration Policy**

As of June 30, 2022, we had a global team of 2,063 full-time employees, increased from 1,951 full-time employees as of January 31, 2022.

# MANAGEMENT DISCUSSION AND ANALYSIS

The remuneration policy and package of our employees are periodically reviewed by the Compensation Committee of the Board. The packages were set by benchmarking with companies in similar industries and companies with similar complexity and size. In addition to cash compensation and benefits, we may issue share options, share appreciation rights, restricted shares, unrestricted shares, share units including restricted share units, performance awards, and other types of awards to our employees in accordance with our equity incentive plans. We also provide comprehensive training programs to our employees to meet their various development needs, including leadership development programs, upskills programs, and on-the-job trainings. The total remuneration cost incurred by the Company was \$129.5 million and \$80.9 million for the six months ended June 30, 2022 and 2021, respectively.

## **Pledge of Assets**

As of June 30, 2022 and December 31, 2021, we did not have any pledge of assets.

## **Contingent Liabilities**

As of June 30, 2022 and December 31, 2021, we did not have any material contingent liabilities. See Note 14 of the unaudited interim condensed consolidated financial statements for contractual obligations under licenses and collaborative agreements.

## **Interim Dividend**

The Board did not recommend any interim dividend for the six months ended June 30, 2022 and 2021, respectively.

## **Recent Accounting Pronouncements**

See Note 2 to the unaudited interim condensed consolidated financial statements regarding recent accounting pronouncements.

## OTHER INFORMATION

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

As of June 30, 2022, so far as was known to the Directors and chief executive of the Company, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares, and debentures of the Company or its associated corporations within the meaning of Part XV of the SFO, which were required to be (a) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they had taken or were deemed to have under such provisions of the SFO); (b) recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of holding <sup>(1)</sup>
Kaixian Chen	Beneficial owner	310,160	0.03%
John David Diekman	Beneficial owner	487,820	0.04%
Ying Du	Beneficial owner	40,957,406 <sup>(2)</sup>	4.18%
	Beneficiary of a trust (other than a discretionary interest)	7,897,924	0.81%
	Other	3,061,410 <sup>(3)</sup>	0.31%
	Founder of a discretionary trust who can influence how the trustee exercises his discretion	215,700 <sup>(4)</sup>	0.02%
Richard Brian Gaynor	Beneficial owner	89,120	0.01%
William David Lis	Beneficial owner	287,640	0.02%
Scott William Morrison	Beneficial owner	73,450	0.01%
Leon Oliver Moulder Jr.	Beneficial owner	216,150	0.02%
Peter Karl Wirth	Beneficial owner	3,506,150	0.35%

Notes:

- (1) These calculations are based on the total number of 979,087,430 Shares in issue as of June 30, 2022.
- (2) Includes Dr. Samantha Du's entitlements to receive up to (1) 36,847,250 Shares pursuant to share options granted to her and not yet exercised or expired, subject to any applicable conditions thereof; and (2) 3,659,750 Shares pursuant to other share awards granted to her and not yet vested, subject to any applicable conditions thereof.
- (3) 3,061,410 Shares are held by certain other shareholders, including members of the Company's management and their affiliates, who have granted to Dr. Samantha Du the right to vote their shares and for which Dr. Samantha Du may be deemed to have an "interest" based on her right to vote such Shares, however Dr. Samantha Du has no pecuniary interest therein.
- (4) These Shares are held by Ying Du Revocable Trust for the benefit of Dr. Samantha Du, of which Dr. Samantha Du is the trustee and is the founder having power to influence the exercise of the trustee's discretion.
- (5) All interests stated above are long positions.

## OTHER INFORMATION

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

As of June 30, 2022, so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholders	Capacity/nature of interest	Number of Shares held	L/S/P <sup>(1)</sup>	Approximate Percentage of Shareholding in the Company <sup>(2)</sup>
FMR LLC	Interest of corporation controlled by you	84,926,945	(L)	8.67%
Invesco Advisers, Inc. <sup>(i)</sup>	Investment manager	81,677,890	(L)	8.34%
Invesco Developing Markets Fund <sup>(i)</sup>	Person having a security interest in shares	72,447,310	(L)	7.39%
BAILLIE GIFFORD & CO <sup>(ii)</sup>	Investment manager	405,906 <sup>(3)</sup>	(L)	0.41%
	Interest of corporation controlled by you	5,510,261 <sup>(3)</sup>	(L)	5.62%
Citigroup Inc. <sup>(iii)</sup>	Person having a security interest in shares	500 <sup>(3)(4)</sup>	(L)	0.00%
	Interest of corporation controlled by you	31,314 <sup>(3)(4)</sup>	(L)	0.00%
	Interest of corporation controlled by you	4,202 <sup>(3)(4)</sup>	(S)	0.00%
	Approved lending agent	5,200,946 <sup>(3)(4)</sup>	(P)	5.31%

Notes:

(1) Long position (L)/ Short position(S)/ Lending pool (P)

(2) These calculations are based on the total number of 979,087,430 Shares in issue as of June 30, 2022.

(3) Following the Share Subdivision, the number of shares held before March 30, 2022 have been retrospectively adjusted to 10 times of its original ordinary shares held.

## OTHER INFORMATION

- (4) According to the corporate substantial shareholder notice regarding the relevant event dated September 28, 2020 submitted by Citigroup Inc. to Hong Kong Stock Exchange on October 5, 2020, an aggregated 5,232,760 Shares (long position), 4,202 Shares (short position), and 5,200,946 Shares (lending pool) of the Company are held by Citigroup Inc. indirectly through its certain subsidiaries. Among them, 5,080,573 Shares (long position) and 4,202 Shares (short position) are physically settled listed derivatives, and 137 Shares (long position) are cash settled unlisted derivatives.
- (i) According to the Form 13F filed by Invesco Ltd. with the SEC on August 15, 2022 ([https://www.sec.gov/Archives/edgar/data/914208/000091420822000479/xslForm13F\\_X01/form13 flnfoTable.xml](https://www.sec.gov/Archives/edgar/data/914208/000091420822000479/xslForm13F_X01/form13 flnfoTable.xml)), as of June 30, 2022, it beneficially owned 8,276,433 ADSs of the Company.
- (ii) According to the Schedule 13G filed by Baillie Gifford & Co with the SEC on July 5, 2022 (<https://www.sec.gov/Archives/edgar/data/1088875/000108887522000104/ZaiLab30062022.txt>), as of June 30, 2022, it beneficially owned 46,935,800 ordinary shares of the Company (which accounted for 4.79% of the then issued share capital of the Company).
- (iii) According to the Form 13F filed by Citigroup Inc with the SEC on August 10, 2022 ([https://www.sec.gov/Archives/edgar/data/831001/000083100122000127/xslForm13F\\_X01/CITIG ROUP\\_13F\\_HR\\_INFOTABLE.xml](https://www.sec.gov/Archives/edgar/data/831001/000083100122000127/xslForm13F_X01/CITIG ROUP_13F_HR_INFOTABLE.xml)), as of 30 June 2022, it beneficially owned 124,365 ADSs of the Company.
- (iv) According to the Schedule 13G/A jointly filed by Qiming Corporate GP IV, Ltd., Qiming Managing Directors Fund IV, L.P., Qiming GP IV, L.P., Qiming Venture Partners IV, L.P., and QM11 Limited with the SEC on February 14, 2022 ([https://www.sec.gov/Archives/edgar/data/1603597/000095010322002433/dp166993\\_sc13ga-qvpiv.htm](https://www.sec.gov/Archives/edgar/data/1603597/000095010322002433/dp166993_sc13ga-qvpiv.htm)), as of December 31, 2021, QM 11 Limited beneficially owned 7,922,932 ordinary shares of the Company (before Share Subdivision), which accounted for 8.2% of the then issued share capital of the Company.

Save as disclosed above and to the best knowledge of the Directors, as of June 30, 2022, we are not aware of any other person (other than the Directors or the chief executive of the Company whose interests are set out in the section headed “DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS” above) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## EQUITY INCENTIVE PLANS

### 1. 2015 Equity Incentive Plan (the “2015 Plan”)

The 2015 Plan was approved by the Board on March 5, 2015 and most recently amended effective on April 10, 2016. Under the 2015 Plan, the Board may grant options to purchase ordinary shares to management including officers, directors, employees, and individual advisors who render services to the Company. The terms of the 2015 Plan are not subject to the provisions of Chapter 17 of the HK Listing Rules, as the Board determined that no new grants would be made under the 2015 Plan after the dual-primary listing of the Company became effective on June 27, 2022.

As of June 30, 2022, the Company had conditionally granted options to 18 participants under the 2015 Plan. All of the options under the 2015 Plan were granted between March 5, 2015 and May 12, 2017 (both days inclusive). The exercise price of all of the options granted under the 2015 Plan is between \$0.06 and \$0.3 per Share.

## OTHER INFORMATION

As of January 1, 2022, 36,561,800 Shares were outstanding pursuant to options granted under the 2015 Plan, and as of June 30, 2022, 34,944,140 Shares were outstanding under the 2015 Plan. Details of the movements of the options granted under the 2015 Plan from January 1, 2022 to June 30, 2022 are as follows:

Name of grantee	Nature of directorship	Date of grant	Vesting period <sup>(1)</sup>	Option period <sup>(2)</sup>	Exercise (grant) price <sup>(3)</sup>	Price on day prior to grant <sup>(4)</sup>	Price on day prior to exercise <sup>(5)</sup>	Outstanding as of January 1, 2022	Number of options			Outstanding as of June 30, 2022
									Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/Lapsed during the Reporting Period	
<b>Directors and chief executive of the Company</b>												
—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Employees</b>												
In aggregate	Employees	3/5/2015	5 years	10 years	0.06	N/A	2.91	2,574,170	—	433,330	—	2,140,840
In aggregate	Employees	10/22/2015	5 years	10 years	0.06	N/A	3.29	16,341,660	—	1,050,000	—	15,291,660
In aggregate	Employees	3/9/2016	5 years	10 years	0.12	N/A	5.24	6,676,460	—	100,000	—	6,576,460
In aggregate	Employees	8/25/2016	5 years	10 years	0.174	N/A	2.91	10,660,690	—	33,330	—	10,627,360
In aggregate	Employees	5/12/2017	5 years	10 years	0.3	N/A	N/A	163,000	—	—	1,000	162,000
<b>Total</b>								36,415,980	—	1,616,660	1,000	34,798,320

Notes:

- (1) 20% of the options shall vest on each anniversary of the date of grant for the next five years, in each case, subject to the grantee's continued employment relationship with the Company on such vesting dates. Certain options may be subject to accelerated vesting upon a qualifying termination of employment and/or change in control of the Company.
- (2) The stated option period is 10 years from the date of grant.
- (3) The stated exercise (grant) price was the closing price as quoted on Nasdaq, divided by 10, on the date of grant.
- (4) The stated price was the closing price as quoted on Nasdaq, divided by 10, on the trading day immediately prior to the date of grant.
- (5) The stated price was the weighted-average closing price as quoted on Nasdaq, divided by 10, on the trading day immediately prior to the date which the options were exercised.

### Purposes

The purposes of the 2015 Plan are to (1) attract and retain the best available personnel for positions of substantial responsibility; (2) provide additional incentive to employees, directors, and consultants; and (3) to promote the success of the Company's business.

## OTHER INFORMATION

### Eligible Participants

Management including officers, directors, employees, and individual advisors who render services to the Company may participate in the 2015 Plan.

### Maximum Number of Shares

As of June 30, 2022, the maximum aggregate number of exercisable Shares (i.e., Shares to be issued pursuant to options vested but unexercised) under the 2015 Plan is 34,261,990 Shares, which represents approximately 3.50% of the issued shares of the Company.

### Limit of Each Grantee

The 2015 Plan does not specify any limit on options or awards granted to a grantee.

### Expiration of the 2015 Plan

Unless sooner terminated by the Board, the 2015 Plan will continue in effect for a term of 10 years from the later of (1) the effective date of the 2015 Plan, or (2) the earlier of the most recent Board or shareholder approval of an increase in the number of Shares reserved for issuance under the 2015 Plan, i.e. April 10, 2026.

### Option Period

At the time an option is granted, the administrator of the 2015 Plan will fix the period within which the option may be exercised. The term of each option granted under the 2015 Plan will be no more than 10 years from the date of grant.

### Consideration

No cash consideration is required to be paid by the grantees for the grant of options under the 2015 Plan.

### Exercise Price

The exercise price of each share option granted under the 2015 Plan shall be no less than 100% of the fair market value of a share on the date of grant (110% in the case of certain incentive share options).

## 2. 2017 Equity Incentive Plan (the “2017 Plan”)

The 2017 Plan was approved by the Board on August 7, 2017. The terms of the 2017 Plan are not subject to the provisions of Chapter 17 of the HK Listing Rules, as the Board determined that no new grants would be made under the 2017 Plan after the dual-primary listing of the Company became effective on June 27, 2022.

## OTHER INFORMATION

As of June 30, 2022, the Company had conditionally granted options to 563 participants under the 2017 Plan. All of the options under the 2017 Plan were granted between September 20, 2017 and June 1, 2022 (both days inclusive). The exercise price of all of the options granted under the 2017 Plan is between \$1.76 and \$18.00 per Share.

As of January 1, 2022, 44,568,290 Shares were outstanding pursuant to options granted under the 2017 Plan, and as of June 30, 2022, 56,602,140 Shares were outstanding under the 2017 Plan. Details of the movements of the options granted under the 2017 Plan from January 1, 2022 to June 30, 2022 are as follows:

Name of grantee	Nature of directorship	Date of grant	Vesting period <sup>(1)(2)</sup>	Option period <sup>(3)</sup>	Exercise (grant) price <sup>(4)</sup>	Price on day prior to grant <sup>(5)</sup>	Price on day prior to exercise <sup>(6)</sup>	Outstanding as of January 1, 2022	Number of options			Outstanding as of June 30, 2022
									Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	
<b>Directors and chief executive of the Company</b>												
—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Employees</b>												
In aggregate	Employees	1/22/2018	5 years	10 years	2.374	2.264	3.63	533,400	—	68,000	10,000	455,400
In aggregate	Employees	9/24/2018	5 years	10 years	1.892	1.918	4.08	4,200,000	—	2,200,000	2,000,000	0
In aggregate	Employees	11/26/2018	5 years	10 years	1.76	1.719	3.55	1,078,000	—	15,000	50,000	1,013,000
In aggregate	Employees	3/8/2019	5 years	10 years	2.775	2.855	4.39	1,122,000	—	24,000	34,000	1,064,000
In aggregate	Employees	3/27/2019	5 years	10 years	2.807	2.771	3.35	1,423,210	—	34,000	64,000	1,325,210
In aggregate	Employees	6/28/2019	5 years	10 years	3.487	3.579	N/A	399,000	—	—	2,000	397,000
In aggregate	Employees	9/30/2019	5 years	10 years	3.235	3.185	N/A	250,000	—	—	60,000	190,000
In aggregate	Employees	12/31/2019	5 years	10 years	4.159	4.042	N/A	362,130	—	—	30,000	332,130
In aggregate	Employees	3/31/2020	5 years	10 years	5.148	5.297	N/A	3,695,000	—	—	315,000	3,380,000
In aggregate	Employees	6/30/2020	5 years	10 years	8.213	8.253	N/A	953,810	—	—	53,500	900,310
In aggregate	Employees	9/21/2020	5 years	10 years	7.33	7.927	N/A	537,830	—	—	31,940	505,890
In aggregate	Employees	12/21/2020	5 years	10 years	12.872	12.525	N/A	1,062,640	—	—	142,990	919,650
In aggregate	Employees	3/1/2021	5 years	10 years	16.202	14.752	N/A	141,000	—	—	10,000	131,000
In aggregate	Employees	4/1/2021	5 years	10 years	13.096	13.343	N/A	4,646,380	—	—	179,790	4,466,590
In aggregate	Employees	6/1/2021	5 years	10 years	18.0	17.766	N/A	140,250	—	—	20,600	119,650
In aggregate	Employees	9/1/2021	5 years	10 years	14.718	14.45	N/A	222,590	—	—	58,000	164,590
In aggregate	Employees	10/1/2021	5 years	10 years	10.275	10.539	N/A	449,820	—	—	2,000	447,820
In aggregate	Employees	11/1/2021	5 years	10 years	10.442	10.44	N/A	149,340	—	—	2,400	146,940
In aggregate	Employees	11/1/2021	4 years	10 years	10.442	10.44	N/A	899,000	—	—	59,000	840,000
In aggregate	Employees	12/1/2021	4 years	10 years	7.123	6.925	N/A	128,500	—	—	26,000	102,500
In aggregate	Employees	1/1/2022	5 years	10 years	6.285	6.692	N/A	o	18,000	—	—	18,000
In aggregate	Employees	2/1/2022	5 years	10 years	5.359	4.967	N/A	o	432,920	—	—	432,920
In aggregate	Employees	3/1/2022	5 years	10 years	5.255	5.47	N/A	o	508,390	—	10,500	497,890
In aggregate	Employees	4/1/2022	5 years	10 years	4.547	4.398	N/A	o	16,038,390	—	242,410	15,795,980
In aggregate	Employees	5/1/2022	5 years	10 years	3.955	3.996	N/A	o	576,540	—	—	576,540
In aggregate	Employees	6/1/2022	5 years	10 years	2.95	2.91	N/A	o	286,240	—	—	286,240
<b>Total</b>								22,393,900	17,860,480	2,341,000	3,404,130	34,053,850

## OTHER INFORMATION

### Notes:

- (1) Where the vesting period is 5 years, 20% of the options shall vest on each anniversary of the date of grant for the next five years, in each case, subject to the grantee's continued employment relationship with the Company on such vesting dates. Certain options may be subject to accelerated vesting upon a qualifying termination of employment and/or change in control of the Company.
- (2) Where the vesting period is 4 years, 25% of the options shall vest on each anniversary of the date of grant for the next four years, in each case, subject to the grantee's continued employment relationship with the Company on such vesting dates.
- (3) The stated option period is 10 years from the date of grant.
- (4) The stated exercise (grant) price was the closing price as quoted on Nasdaq, divided by 10, on the date of grant.
- (5) The stated price was the closing price as quoted on Nasdaq, divided by 10, on the trading day immediately prior to the date of grant.
- (6) The stated price was the weighted-average closing price as quoted on Nasdaq, divided by 10, on the trading day immediately prior to the date which the options were exercised.

### Purposes

The purposes of the 2017 Plan are to attract, retain, and reward key employees and directors of, and consultants and advisors to, the Company and its subsidiaries, to incentivize them to generate shareholder value, to enable them to participate in the growth of the Company, and to align their interests with the interests of the Company's shareholders.

### Types of awards

The 2017 Plan provides for the grant of share options, SARs, restricted and unrestricted shares, and share units, performance awards, and other awards that are convertible into or otherwise based on our Shares. Dividend equivalents may also be provided in connection with awards under the 2017 Plan.

**Stock options and SARs.** The Administrator may grant share options, including ISOs, and SARs. A share option is a right entitling the holder to acquire shares upon payment of the applicable exercise price. An SAR is a right entitling the holder upon exercise to receive an amount (payable in cash or shares of equivalent value) equal to the excess of the fair market value of the shares subject to the right over the base value from which appreciation is measured. The exercise price of each share option, and the base value of each SAR, granted under the 2017 Plan shall be no less than 100% of the fair market value of a share on the date of grant (110% in the case of certain ISOs). Other than in connection with certain corporate transactions or changes to our capital structure, share options and SARs granted under the 2017 Plan may not be repriced or substituted for with new share options or SARs having a lower exercise price or base value, nor may any consideration be paid upon the cancellation of any share options or SARs that have a per share exercise or base price greater than the fair market value of a share on the date of such cancellation, in each case, without shareholder approval. Each share option and SAR will have a maximum term of not more than 10 years from the date of grant (or 5 years, in the case of certain ISOs).

## OTHER INFORMATION

**Restricted and unrestricted shares and share units.** The Administrator may grant awards of shares, share units, restricted shares, and restricted share units. A share unit is an unfunded and unsecured promise, denominated in shares, to deliver shares or cash measured by the value of shares in the future, and a restricted share unit is a share unit that is subject to the satisfaction of specified performance or other vesting conditions. Restricted shares are shares that are subject to restrictions requiring that they be redelivered or offered for sale to the Company if specified conditions are not satisfied.

**Performance awards.** The Administrator may grant performance awards, which are awards subject to performance criteria.

**Other stock-based awards.** The Administrator may grant other awards that are convertible into or otherwise based on shares, subject to such terms and conditions as it determines.

**Substitute awards.** The Administrator may grant substitute awards, which may have terms and conditions that are inconsistent with the terms and conditions of the 2017 Plan.

### Eligible Participants

The Compensation Committee of the Board shall select participants of the 2017 Plan from among key employees and directors of, and consultants and advisors to, the Company. Eligibility for stock options intended to be incentive stock options (as defined under Section 422 of the Internal Revenue Code of the United States (the “Code”)) is limited to employees of the Company or certain affiliates. Eligibility for stock options, other than incentive stock options, and stock appreciation rights is limited to individuals who are providing direct services on the date of grant of the award to the Company or certain affiliates.

### Maximum Number of Shares

The initial maximum aggregate number of Shares that may be delivered in satisfaction of awards under the 2017 Plan is 19,243,270 Shares (taking into account the Share Subdivision) plus an annual increase, to be added as of January 1 of each year from January 1, 2018 to January 1, 2027, equal to the lesser of (1) 4% of the number of Shares outstanding as of the close of business on the immediately preceding December 31; and (2) the number of Shares determined by the Board on or prior to such date for such year. As of June 30, 2022, the maximum aggregate number of exercisable Shares (i.e., Shares to be issued pursuant to options vested but unexercised) under the 2017 Plan is 19,607,020, which represents approximately 2.00% of the issued shares of the Company.

### Limit of Each Grantee

The total number of Shares underlying the share options that may be granted to a grantee under the 2017 Plan within a calendar year shall not exceed 577,298 Shares. In addition, the maximum grant date fair value of awards granted under the 2017 Plan to any non-employee director of the Company in respect of his or her service as a director with respect to any calendar year may not exceed \$500,000, assuming maximum payout.

### Expiration of the 2017 Plan

According to the terms of the 2017 Plan, no awards may be made after 10 years from the date of adoption of the 2017 Plan, provided that the Board determined that no new grants would be made under the 2017 Plan after the Primary Conversion Effective Date.

### Option Period

The Compensation Committee of the Board determines the terms of all awards granted under the 2017 Plan, including the time or times an award vests or becomes exercisable, the terms on which an award remains exercisable, and the effect of termination of a participant's employment or service on an award. The Compensation Committee of the Board may at any time accelerate the vesting or exercisability of an award. The maximum term of share options must not exceed 10 years from the date of grant.

### Consideration

No cash consideration is required to be paid by the grantees for the grant of options under the 2017 Plan.

### Exercise Price

The exercise price of each share option granted under the 2017 Plan shall be no less than 100% of the fair market value of a share on the date of grant (110% in the case of certain incentive share options).

### **3. 2022 Equity Incentive Plan (the "2022 Plan")**

The 2022 Plan was approved at the Company's 2022 annual general meeting of shareholders on June 22, 2022. The terms of the 2022 Plan comply with the provisions of Chapter 17 of the HK Listing Rules. Under the 2022 Plan, the Compensation Committee of the Board may award share options, share appreciation rights, restricted shares, restricted share units, performance-based awards, unrestricted shares, and cash-based awards subject to such conditions and restrictions as it may determine. The Compensation Committee of the Board may also grant dividend equivalent rights that entitle the recipient to receive credits for dividends that would be paid if the recipient held a specified number of ordinary shares. The equity-based incentive tools used in the 2022 Plan are substantially similar to those in the 2017 Plan, as the 2022 Plan is intended by the Company to replace the 2017 Plan upon the Primary Conversion Effective Date.

From the Primary Conversion Effective Date to June 30, 2022, the Company had not made any grants under the 2022 Plan.

### Purposes

The purposes of the 2022 Plan are to attract, retain, and reward key employees and directors of, and consultants and advisors to, the Company and its subsidiaries, to incentivize them to generate shareholder value, to enable them to participate in the growth of the Company, and to align their interests with the interests of the Company's shareholders.

## OTHER INFORMATION

### Eligible Participants

The Compensation Committee of the Board shall select participants of the 2022 Plan from among key employees and directors of, and consultants and advisors to, the Company. Eligibility for stock options intended to be incentive stock options (as defined under Section 422 of the Code) is limited to employees of the Company or certain affiliates. Eligibility for share options, other than incentive stock options, and stock appreciation rights is limited to individuals who are providing direct services on the date of grant of the award to the Company or certain affiliates.

### Maximum Number of Shares

The maximum aggregate number of Shares that may be delivered in satisfaction of awards under the 2022 Plan is 97,908,743 Shares (which represents 10% of the issued shares of the Company as of June 22, 2022), provided that the number of Shares which may be issued upon exercise of all share options to be granted under the 2022 Plan and any other schemes or plans of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as of the date of approval of the 2022 Plan by shareholders of the Company. At any time, the maximum number of Shares which may be issued and/or transferred upon the vesting or exercise of all outstanding share options which have been granted and have yet to vest or be exercised under the 2022 Plan and any outstanding options granted under any other share award schemes of the Company shall not exceed 30% of the Shares in issue from time to time.

### Limit of Each Grantee

Unless approved by the Company's shareholders, the total number of Shares issued and to be issued upon the exercise of share options granted and to be granted under the 2022 Plan and any other plan of the Company to any person within any 12-month period shall not exceed 1% of the Shares in issue at the date of any grant. In addition, the maximum grant date value of awards granted to any non-employee director in any calendar year, assuming a maximum payout, may not exceed, in the case of newly appointed non-employee director, \$750,000 in the first year of his/her appointment, or otherwise \$500,000 (subject to applicable laws).

### Expiration of the 2022 Plan

Unless sooner terminated by the Board, the term of the 2022 Plan will expire 10 years from the date of adoption, i.e., on April 20, 2032.

### Option Period

The Compensation Committee of the Board determines the terms of all awards granted under the 2022 Plan, including the time or times an award vests or becomes exercisable, the terms on which an award remains exercisable, and the effect of termination of a participant's employment or service on an award. The Compensation Committee of the Board may at any time accelerate the vesting or exercisability of an award. The maximum term of share options must not exceed 10 years from the date of grant.

### Consideration

No cash consideration is required to be paid by the grantees for the grant of options under the 2022 Plan.

### Exercise Price

The exercise price of each share option granted under the 2022 Plan shall be no less than the fair market value of a share on the date of grant (110% in the case of certain incentive share options).

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions set forth in the CG Code.

Pursuant to code provision C.2.1 of the CG Code, companies listed on the Hong Kong Stock Exchange are expected to comply with, but may choose to deviate from, the requirement that the responsibilities of the Chairperson and the Chief Executive Officer should be segregated and should not be performed by the same individual. Dr. Samantha Du currently serves as our Chairperson and Chief Executive Officer. The Board believes that Dr. Samantha Du is the director best suited to serve as Chairperson, including due to her extensive understanding of our business and industry and her ability to identify strategic opportunities, promote the effective execution of strategic initiatives, and facilitate the flow of information between management and the Board. The Board believes that the balance of power and authority on the Board will not be impaired due to this arrangement. The Board will review the corporate governance structure and practices from time to time and shall make changes the Board considers appropriate.

Except as disclosed above, from the Primary Conversion Effective Date to the date of this interim report, the Company has complied with the provisions set out in the CG Code.

The Board will continue to periodically review and monitor its corporate governance practices for compliance with the CG Code and maintain a high standard of corporate governance practices of the Company.

## COMPLIANCE WITH POLICIES EQUIVALENT TO THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted its own insider dealing policies on terms no less exacting than those in the Model Code regarding director dealings in the securities of the Company.

Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standards set forth in the Company's insider dealing policies throughout the period from the Primary Conversion Effective Date to June 30, 2022.

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

During the Reporting Period, the Company did not purchase, sell, or redeem any of the Company's securities listed on the Hong Kong Stock Exchange.

## OTHER INFORMATION

### **DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION PURSUANT TO RULE 13.51(B)(1) OF THE HK LISTING RULES**

Upon specific enquiry by the Company and following confirmations from directors, except as disclosed hereunder, there is no change in the information of directors required to be disclosed pursuant to Rule 13.51(B)(1) of the HK Listing Rules during the Reporting Period. The change of directors' information is set forth below.

Ms. Nisa Leung resigned as a non-executive director and a member of the audit committee of the board of directors of New Horizon Health Limited (Stock Code: 6606) with effect from February 28, 2022 due to other business commitments. Ms. Leung has also served as an independent non-executive director, a member of the audit committee, and a member of risk committee of Hong Kong Exchanges and Clearing Limited (Stock Code: 0388) since April 28, 2021.

The Compensation Committee of the Board actively reviews and assesses the executive compensation program in light of the highly competitive employment environment and the challenge of recruiting, motivating, and retaining executives. Please refer to the definitive proxy statement/circular for the 2022 Annual General Meeting dated May 3, 2022 for the compensation program of Dr. Samantha Du and the compensation policy of independent non-employee directors.

### **USE OF NET PROCEEDS**

#### **Use of Net Proceeds from April 2021 Offering**

In April 2021, the Company issued 224,000 ordinary shares of the Company at a price of HK\$1,164.20 per share and 5,492,400 ADSs at a price of US\$150.00 per ADS for aggregate cash consideration (before deducting underwriting discounts and commissions and other offering expenses) of approximately \$857.5 million.

As of the date of this interim report, there has been no change in the intended use of net proceeds raised from this offering, which amounted to approximately \$818.0 million, as disclosed in the announcement of the Company dated April 21, 2021:

- approximately 30% of the net proceeds to fund new business and corporate development and licensing opportunities;
- approximately 30% of the net proceeds to complete clinical trials and advance new drug candidates;
- approximately 20% of the net proceeds to expand the Company's commercialization efforts;
- approximately 15% of the net proceeds to enhance the Company's global pipeline; and
- approximately 5% of the net proceeds for working capital and other general corporate purposes.

## OTHER INFORMATION

The following table sets forth a summary of the utilization of the net proceeds from this offering as of June 30, 2022:

<b>Purpose</b>	<b>Percentage to total amount</b>	<b>Net proceeds from the offering \$ (million)</b>	<b>Actual use of proceeds up to June 30, 2022 \$ (million)</b>	<b>Unutilized amount as of June 30, 2022 \$ (million)</b>
fund new business and corporate development and licensing opportunities	30%	245.4	—	245.4
complete clinical trials and advance new drug candidates	30%	245.4	45.7	199.7
expand the Company's commercialization efforts	20%	163.6	63.0	100.6
enhance the Company's global pipeline	15%	122.7	—	122.7
working capital and other general corporate purposes	5%	40.9	—	40.9
<b>Total</b>	<b>100%</b>	<b>818.0</b>	<b>108.7</b>	<b>709.3</b>

The Company plans to gradually utilize the remaining net proceeds in accordance with such intended purpose depending on actual business, which is expected to be fully utilized by the end of 2025.

### Use of Net Proceeds from the Global Offering

Dealings in ordinary shares on the Hong Kong Stock Exchange commenced on September 28, 2020. The net proceeds raised from the Global Offering, after deduction of the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the Global Offering, were approximately HK\$6,636.2 (\$850.8 million). As of the date of this interim report, there has been no change in the intended use of net proceeds and the expected timeline as previously disclosed in the section "Use of Proceeds" in the Prospectus. The net proceeds received by the Company from the Global Offering will be used for the following purposes:

- approximately 16.0% will be allocated for ZEJULA to seek indication expansion and hire high-caliber R&D staff dedicated to its development, and to develop and improve the Company's manufacturing facilities to bring ZEJULA to commercialization;
- approximately 6.2% will be used to fund ongoing and planned clinical trials and preparation for registration filings of Tumor Treating Fields in multiple solid tumor cancer indications;

## OTHER INFORMATION

- approximately 16.0% will be used for ZEJULA to enhance the Company's commercialization capabilities through increasing its sales and marketing headcounts, among other efforts;
- approximately 8.0% will be used to strengthen commercialization efforts for Tumor Treating Fields through recruiting key talents in relevant indications to drive sales and future potential product launch;
- approximately 11.8% will be used to fund the Company's ongoing and planned clinical trials and preparation for registration filings of other drug candidates in the pipeline, especially late-stage drug candidates;
- approximately 25.0% will be used to explore new global licensing and collaboration opportunities and bring in potentially global best-in-class/first-in-class assets with clinical validation, synergistic with the Company's current pipeline, and aligned to its expertise;
- approximately 7.0% will be used to continue investing in and expanding the Company's internal discovery pipeline and recruit and train talent globally; and
- approximately 10.0% will be used to fund working capital and other general corporate purposes.

The following table sets forth a summary of the utilization of the net proceeds from the Global Offering as of June 30, 2022:

<b>Purpose</b>	<b>Percentage to total amount</b>	<b>Net proceeds from the offering \$ (million)</b>	<b>Actual use of proceeds up to June 30, 2022 \$ (million)</b>	<b>Unutilized amount as of June 30, 2022 \$ (million)</b>
for ZEJULA to seek indication expansion and hire high-caliber R&D staff dedicated to its development, and to develop and improve the Company's manufacturing facilities to bring ZEJULA to commercialization	16.0%	136.1	20.8	115.3
fund ongoing and planned clinical trials and preparation for registration filings of Tumor Treating Fields in multiple solid tumor cancer indications	6.2%	52.7	14.0	38.7

## OTHER INFORMATION

<b>Purpose</b>	<b>Percentage to total amount</b>	<b>Net proceeds from the offering \$ (million)</b>	<b>Actual use of proceeds up to June 30, 2022 \$ (million)</b>	<b>Unutilized amount as of June 30, 2022 \$ (million)</b>
for ZEJULA to enhance the Company's commercialization capabilities through increasing its sales and marketing headcounts, among other efforts	16.0%	136.1	64.2	71.9
strengthen commercialization efforts for Tumor Treating Fields through recruiting key talents in relevant indications to drive sales and future potential product launch	8.0%	68.1	27.1	41.0
fund the Company's ongoing and planned clinical trials and preparation for registration filings of other drug candidates in the pipeline, especially late-stage drug candidates	11.8%	100.4	100.4	—
explore new global licensing and collaboration opportunities and bring in potentially global best-in-class/ first-in-class assets with clinical validation, synergistic with the Company's current pipeline and aligned to its expertise	25.0%	212.7	125.3	87.4
continue investing in and expanding the Company's internal discovery pipeline and recruit and train talent globally	7.0%	59.6	19.8	39.8
fund working capital and other general corporate purposes	10.0%	85.1	29.0	56.1
<b>Total</b>	<b>100%</b>	<b>850.8</b>	<b>400.6</b>	<b>450.2</b>

The Company plans to gradually utilize the remaining net proceeds in accordance with such intended purpose depending on actual business, which is expected to be fully utilized by the end of 2025.

## OTHER INFORMATION

### DIFFERENCES BETWEEN U.S. GAAP AND IFRS

The interim financial statements for the six months ended June 30, 2022 is prepared under U.S. GAAP and reviewed by the Audit Committee of the Board, and the differences between U.S. GAAP and IFRS have been disclosed in Note 18 to the Company's unaudited interim condensed consolidated financial statements.

#### Basis of Preparation

The Directors of the Company are responsible for the Company's reconciliation statement in relation to the effects of material differences between the Company's financial information prepared under U.S. GAAP and IFRS as at June 30, 2022 and December 31, 2021 and for the six month periods ended June 30, 2022 and 2021 (the "Reconciliation Statement", as disclosed in Note 18 to the Company's unaudited interim condensed consolidated financial statements) in accordance with the relevant requirements of the HK Listing Rules and relevant guidance in HKEX-GL111-22. The Reconciliation Statement comprises a reconciliation setting out the financial effect of material differences between the Company's accounting policies under U.S. GAAP and IFRS, and an explanation of such differences.

#### Reconciliation Process

The process applied in the preparation of Reconciliation Statement includes:

- (i) Extracting relevant financial information from the Company's unaudited interim condensed consolidated financial statements for the six months ended June 30, 2022 prepared in accordance with U.S. GAAP as the "Amounts as reported under U.S. GAAP" in respect of the unaudited condensed consolidated statements of operations for the six months ended June 30, 2022 and 2021 and the condensed consolidated balance sheets as of June 30, 2022 (unaudited) and December 31, 2021;
- (ii) Identifying changes to the accounting policies under U.S. GAAP which are considered necessary in order for the accounting policies to conform to the relevant requirements of IFRS and quantifying the financial effects resulting from such changes; and
- (iii) Preparing the description of the reconciling items to explain the differences in the accounting policies.

#### Limited Assurance Engagement and Results

KPMG was engaged by the Company to conduct work on the Reconciliation Statement and to report thereon in the form of an independent limited assurance conclusion to the Directors based on the evidence obtained in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ("HKSAE 3000 (Revised)") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

## OTHER INFORMATION

A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Reconciliation Statement, assessing the suitability of the basis of preparation and the reconciliation process, and applying other procedures. The procedures selected depend on their understanding of the Reconciliation Statement and other engagement circumstances, and the consideration of areas where material misstatements are likely to arise. These procedures included:

- (i) Comparing the financial information in the columns “Amounts as reported under U.S. GAAP” as set out in the Reconciliation Statement with the corresponding financial statement line items in the Company’s unaudited interim condensed consolidated financial statements for the six months ended June 30, 2022;
- (ii) Evaluating the adjustments made and evidence supporting the adjustments made in arriving at the “Amounts as reported under IFRS” as set out in the Reconciliation Statement with reference to the basis of preparation and the reconciliation process;
- (iii) Checking the arithmetic accuracy of the computation of the “Amounts as reported under IFRS” as set out in the Reconciliation Statement; and
- (iv) Reading the description of the material differences to determine whether it is in line with the knowledge obtained in performing the above procedures.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

KPMG’s engagement did not involve independent examination of any of the underlying records or other sources from which the Reconciliation Statement was extracted. The procedures performed in accordance with HKSAE 3000 (Revised) is different in scope from an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA and consequently, KPMG did not express an audit opinion nor a review conclusion on the Reconciliation Statement. KPMG’s engagement was intended solely for the use of the Directors in connection with the Company’s interim report for the six months ended 30 June, 2022 and may not be suitable for another purpose. Based on the procedures performed and evidence obtained, nothing has come to KPMG’s attention that causes them to believe:

- (i) The amounts in the columns “Amounts as reported under U.S. GAAP” as set out in the Reconciliation Statement are not in agreement with the amounts of corresponding financial statement line items in the Company’s unaudited interim condensed consolidated financial statements for the six months ended June 30, 2022;
- (ii) The adjustments made in arriving at the “Amounts as reported under IFRS” as set out in the Reconciliation Statement are not prepared, in all material respects, in accordance with the basis of preparation and reconciliation process as set out above; and

## OTHER INFORMATION

- (iii) The computation of the amounts in the columns “Amounts as reported under IFRS” as set out in the Reconciliation Statement are not arithmetically accurate.

### **AUDIT COMMITTEE REVIEW OF FINANCIAL STATEMENTS**

The Audit Committee of the Board oversees the accounting and financial reporting processes of the Company and the audits of the Company’s financial statements, including but not limited to assisting the Board in its oversight of the integrity of the consolidated financial statements of the Company, the Company’s compliance program, and the Company’s risk management and internal control over financial reporting. As of the date of this interim report, the Audit Committee currently consists of three members, namely Mr. Scott W. Morrison, Dr. John Diekman, and Mr. Peter Wirth, all of whom are independent directors. Mr. Scott W. Morrison is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited consolidated financial statements and interim results of the Company for the six months ended June 30, 2022. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal controls with members of senior management and the external auditor of the Company, KPMG LLP.

### **OTHER BOARD COMMITTEES**

In addition to the Audit Committee, the Board has a Compensation Committee, a Nominating and Corporate Governance Committee, and a Research and Development Committee.

### **IMPORTANT EVENTS AFTER THE REPORTING DATE**

No important events affecting the Company have occurred since June 30, 2022 and up to the date of this interim report.

### **CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE HK LISTING RULES**

The Company does not have any disclosure obligations under Rules 13.20, 13.21, and 13.22 of the HK Listing Rules.

# CONSOLIDATED FINANCIAL STATEMENTS

## UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of \$ except for number of shares and per share data)

	Notes	June 30, 2022 \$	December 31, 2021 \$
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	680,820	964,100
Short-term investments		575,274	445,000
Accounts receivable (net of allowance for credit loss of \$8 and \$11 as of June 30, 2022 and December 31, 2021, respectively)	4	27,054	47,474
Notes receivable		10,968	7,335
Inventories, net	5	23,339	18,951
Value added tax recoverable — current		219	—
Prepayments and other current assets		17,973	18,021
<b>Total current assets</b>		<b>1,335,647</b>	<b>1,500,881</b>
Restricted cash, non-current		803	803
Long term investments (including the fair value measured investment of \$2,827 and \$15,383 as of June 30, 2022 and December 31, 2021, respectively)		2,827	15,605
Prepayments for equipment		4,542	989
Property and equipment, net	6	46,419	43,102
Operating lease right-of-use assets		18,596	14,189
Land use rights, net		7,286	7,811
Intangible assets, net		1,673	1,848
Long-term deposits		947	870
Value added tax recoverable		37	23,858
<b>Total assets</b>		<b>1,418,777</b>	<b>1,609,956</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Accounts payable	7	108,443	126,163
Current operating lease liabilities		6,824	5,927
Other current liabilities	10	53,610	60,811
<b>Total current liabilities</b>		<b>168,877</b>	<b>192,901</b>
Deferred income		24,775	27,486
Non-current operating lease liabilities		12,960	9,613
<b>Total liabilities</b>		<b>206,612</b>	<b>230,000</b>

# CONSOLIDATED FINANCIAL STATEMENTS

## UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands of \$ except for number of shares and per share data) (Continued)

	June 30, 2022	December 31, 2021
	\$	\$
<b>Commitments and contingencies (Note 16)</b>		
<b>Shareholders' equity</b>		
Ordinary shares (par value of \$0.000006 per share; 5,000,000,000 shares authorized; 960,520,140 and 955,363,980 shares issued as of June 30, 2022 and December 31, 2021, respectively; 958,494,830 and 954,981,050 shares outstanding as of June 30, 2022 and December 31, 2021, respectively)	6	6
Additional paid-in capital	2,857,202	2,825,948
Accumulated deficit	(1,638,401)	(1,418,074)
Accumulated other comprehensive income (loss)	4,487	(23,645)
Treasury Stock (at cost, 2,025,310 and 382,930 shares as of June 30, 2022 and December 31, 2021, respectively)	(11,129)	(4,279)
<b>Total shareholders' equity</b>	<b>1,212,165</b>	<b>1,379,956</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,418,777</b>	<b>1,609,956</b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of \$ except for number of shares and per share data)

		Six Months Ended June 30,	
	Notes	2022 \$	2021 \$
Revenues:			
Product revenue, net	8	93,670	57,038
Collaboration revenue	8	1,230	—
Total revenues		<b>94,900</b>	57,038
Expenses:			
Cost of sales		<b>(33,051)</b>	(18,373)
Research and development		<b>(119,938)</b>	(346,076)
Selling, general, and administrative		<b>(120,392)</b>	(90,252)
Loss from operations		<b>(178,481)</b>	(397,663)
Interest income		1,363	458
Other income (expenses), net		<b>(42,988)</b>	1,179
Loss before income tax and share of loss from equity method investment		<b>(220,106)</b>	(396,026)
Income tax expense	9	—	—
Share of loss from equity method investment		<b>(221)</b>	(208)
Net loss		<b>(220,327)</b>	(396,234)
Net loss attributable to ordinary shareholders		<b>(220,327)</b>	(396,234)
Loss per share — basic and diluted	11	<b>(0.23)</b>	(0.44)
Weighted-average shares used in calculating net			
loss per ordinary share — basic and diluted		<b>956,603,250</b>	907,231,320
Loss per American Depositary Shares (“ADS”) — basic and diluted		<b>(2.30)</b>	(4.37)
Weighted-average ADSs used in calculating net loss per ADS — basic and diluted		<b>95,660,325</b>	90,723,132

Note: All the numbers of ordinary shares and per share data in these unaudited condensed consolidated financial statements have been retrospectively adjusted as a result of the Share Subdivision and the ADS Ratio Change that became effective on March 30, 2022. The Share Subdivision and ADS Ratio Change did not result in any change to the number of outstanding ADSs of the Company. Refer to Note 2(a) for a detailed discussion.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

*(In thousands of \$ except for number of shares and per share data)*

	<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Net loss	<b>(220,327)</b>	(396,234)
Other comprehensive income (loss), net of tax of nil:		
Foreign currency translation adjustments	<b>28,132</b>	(2,341)
Comprehensive loss	<b>(192,195)</b>	(398,575)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands of \$ except for number of shares and per share data)

	Ordinary shares		Additional paid in capital \$	Accumulated deficit \$	Accumulated other comprehensive (loss) income \$	Treasury Stock		Total \$
	Number of Shares	Amount \$				Shares	Amount \$	
Balance at December 31, 2021	955,363,980	6	2,825,948	(1,418,074)	(23,645)	(382,930)	(4,279)	1,379,956
Issuance of ordinary shares upon vesting of restricted shares	1,198,500	0	0	—	—	—	—	—
Exercise of shares options	3,957,660	0	4,619	—	—	—	—	4,619
Receipt of employees' shares to satisfy tax withholding obligations related to share-based compensation	—	—	—	—	—	(1,642,380)	(6,850)	(6,850)
Share-based compensation	—	—	26,635	—	—	—	—	26,635
Net loss	—	—	—	(220,327)	—	—	—	(220,327)
Foreign currency translation	—	—	—	—	28,132	—	—	28,132
Balance at June 30, 2022	960,520,140	6	2,857,202	(1,638,401)	4,487	(2,025,310)	(11,129)	1,212,165
Balance at December 31, 2020	878,110,260	5	1,897,467	(713,603)	(14,524)	—	—	1,169,345
Issuance of ordinary shares upon vesting of restricted shares	1,137,000	0	0	—	—	—	—	—
Exercise of shares options	5,488,810	0	3,991	—	—	—	—	3,991
Issuance of ordinary shares in connection with collaboration and license arrangement	5,681,820	0	62,250	—	—	—	—	62,250
Issuance of ordinary shares upon follow-on public offering, net of issuance cost of \$879	57,164,000	1	817,995	—	—	—	—	817,996
Issuance cost adjustment for secondary listing	—	—	65	—	—	—	—	65
Receipt of employees' shares to satisfy tax withholding obligations related to share-based compensation	—	—	—	—	—	(60,860)	(924)	(924)
Share-based compensation	—	—	17,550	—	—	—	—	17,550
Net loss	—	—	—	(396,234)	—	—	—	(396,234)
Foreign currency translation	—	—	—	—	(2,341)	—	—	(2,341)
Balance at June 30, 2021	947,581,890	6	2,799,318	(1,109,837)	(16,865)	(60,860)	(924)	1,671,698

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

"0" in above table means less than 1,000 dollars.

# CONSOLIDATED FINANCIAL STATEMENTS

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of \$ except for number of shares and per share data)

	Six Months Ended June 30,	
	2022	2021
	\$	\$
<b>Operating activities</b>		
Net loss	(220,327)	(396,234)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for credit loss	(3)	4
Inventory write-down	193	290
Depreciation and amortization expenses	3,874	2,975
Amortization of deferred income	(1,386)	(156)
Share-based compensation	26,635	17,550
Noncash research and development expenses	—	62,250
Share of loss from equity method investment	221	208
Loss from fair value changes of equity investment with readily determinable fair value	12,556	—
(Gain) loss on disposal of property and equipment	(11)	4
Noncash lease expenses	3,824	2,779
Changes in operating assets and liabilities:		
Accounts receivable	20,422	(12,868)
Notes receivable	(3,633)	—
Inventories	(4,582)	1,740
Prepayments and other current assets	48	(1,953)
Long-term deposits	(78)	(29)
Value added tax recoverable	23,602	(1,682)
Accounts payable	(17,718)	62,980
Other current liabilities	29,510	28,078
Operating lease liabilities	(3,849)	(2,214)
Deferred income	(1,325)	930
Net cash used in operating activities	(132,027)	(235,348)
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(260,274)	—
Proceeds from maturity of short-term investment	130,000	743,902
Purchase of property and equipment	(13,488)	(5,647)
Purchase of intangible assets	(107)	(427)
Net cash (used in) provided by investing activities	(143,869)	737,828

# CONSOLIDATED FINANCIAL STATEMENTS

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands of \$ except for number of shares and per share data) (Continued)

	Six Months Ended June 30,	
	2022	2021
	\$	\$
<b>Cash flows from financing activities:</b>		
Proceeds from exercises of stock options	4,619	3,992
Proceeds from issuance of ordinary shares upon public offerings	—	818,874
Payment of public offering costs	—	(1,323)
Employee taxes paid related to net share settlement of equity awards	(6,859)	(594)
Net cash (used in) provided by financing activities	(2,240)	820,949
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(5,144)	1,028
Net (decrease) increase in cash, cash equivalents and restricted cash	(283,280)	1,324,457
Cash, cash equivalents and restricted cash — beginning of period	964,903	442,859
Cash, cash equivalents and restricted cash — end of period	681,623	1,767,316
<b>Supplemental disclosure on non-cash investing and financing activities:</b>		
Payables for purchase of property and equipment	1,661	1,720
Payables for intangible assets	270	58
Payables for public offering costs	—	555
Payables for treasury stock	17	—
Receivables for stock option exercise under equity incentive plans	12	—
Right-of-use asset acquired under operating leases	8,451	—
<b>Supplemental disclosure of cash flow information:</b>		
Cash and cash equivalents	680,820	1,766,573
Restricted cash, non-current	803	743
Total cash and cash equivalents and restricted cash	681,623	1,767,316

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Zai Lab Limited was incorporated on March 28, 2013 in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands (as amended). The Company are focused on developing and commercializing therapies that address medical conditions with unmet medical needs, including oncology, autoimmune disorders, infectious diseases, and neurological disorders.

The Company's principal operations and geographic markets are in Greater China. The Company has a substantial presence in Greater China and the United States.

### 2. BASIS OF PRESENTATION AND CONSOLIDATION AND SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP, applicable rules and regulations of the SEC, and the disclosure requirements of the HK Listing Rules regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP and HK Listing Rules have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this interim report should be read in conjunction with the consolidated financial statements and accompanying notes included in the 2021 Annual Report. The December 31, 2021 condensed consolidated balance sheet data included in this interim report were derived from the audited financial statements included in the 2021 Annual Report.

The accompanying condensed consolidated financial statements reflect all normal recurring adjustments that are necessary to present fairly the results for the interim periods presented. Interim results are not necessarily indicative of the results for the year ending December 31, 2022.

Effective as of March 30, 2022, the Company subdivided each of its issued and unissued ordinary shares into ten ordinary shares (the "Share Subdivision"). Following the Share Subdivision, the Company's authorized share capital became \$30,000 divided into 5,000,000,000 shares with a par value of US\$0.000006 per share. The numbers of issued and unissued ordinary shares and per share data as disclosed elsewhere in these unaudited condensed consolidated financial statements and notes thereto are presented on a basis after taking into account the effects of the Share Subdivision and have been retrospectively adjusted, where applicable. In connection with the Share Subdivision, the conversion ratio of our ADSs to ordinary shares changed from one ADS to one ordinary share to a new ratio of one ADS to ten ordinary shares (the "ADS Ratio Change"). The Share Subdivision and ADS Ratio Change did not result in any change to the number of outstanding ADSs of the Company.

# CONSOLIDATED FINANCIAL STATEMENTS

## 2. BASIS OF PRESENTATION AND CONSOLIDATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Principles of consolidation

The unaudited condensed consolidated financial statements include the financial statements of the Company. All intercompany transactions and balances among the Company are eliminated upon consolidation.

### (c) Use of estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Areas where management uses subjective judgment include, but are not limited to, estimating the useful lives of long-lived assets, estimating the current expected credit losses for financial assets, and assessing the impairment of long-lived assets, discount rate of operating lease liabilities, accrual of rebates, allocation of the research and development service expenses to the appropriate financial reporting period based on the progress of the research and development projects, share-based compensation expenses, recoverability of deferred tax assets, and a lack of marketability discount of the ordinary shares issued in connection with collaboration and license arrangements (Note 14). Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

### (d) Fair value measurements

As of June 30, 2022 and December 31, 2021, information about inputs into the fair value measurement of the Company's assets that are measured at a fair value on a recurring basis in periods subsequent to their initial recognition is as follows (in thousands):

Description	Fair Value as of	Fair Value Measurement
	June 30, 2022	at Reporting Date Using
		Quoted Prices in Active
		Markets for Identical
		Assets (Level 1)
	US\$	US\$
Equity Investments with Readily Determinable Fair Value	2,827	2,827

  

Description	Fair Value as of	Fair Value Measurement
	December 31, 2021	at Reporting Date Using
		Quoted Prices in Active
		Markets for Identical
		Assets (Level 1)
	US\$	US\$
Equity Investments with Readily Determinable Fair Value	15,383	15,383

# CONSOLIDATED FINANCIAL STATEMENTS

## 2. BASIS OF PRESENTATION AND CONSOLIDATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Fair value measurements (Continued)

The Company did not have assets or liabilities measured at fair value on a nonrecurring basis during the periods presented.

Financial instruments of the Company primarily include cash, cash equivalents and restricted cash, short-term investments, accounts receivable, notes receivable, prepayments and other current assets, accounts payable, and other current liabilities. As of June 30, 2022 and December 31, 2021, the carrying values of cash and cash equivalents, short-term investments, accounts receivable, notes receivable, prepayments and other current assets, accounts payable, and other current liabilities approximated their fair values due to the short-term maturity of these instruments, and the carrying value of restricted cash approximated its fair value based on the assessment of the ability to recover these amounts.

### (e) Recent accounting pronouncements

#### Adopted accounting standards

In November 2021, the FASB issued ASU2021-10, Government Assistance (Topic 832) — Disclosures by Business Entities about Government Assistance. The amendments in this ASU require disclosures about transactions with a government that have been accounted for by analogizing to a grant or contribution accounting model to increase transparency about (1) the types of transactions, (2) the accounting for the transactions, and (3) the effect of the transactions on an entity's financial statements. The amendments in this ASU are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. The Company adopted this standard as of January 1, 2022. There was no material impact to the Company's financial position or results of operations upon the adoption.

### (f) Significant accounting policies

For a more complete discussion of the Company's significant accounting policies, the unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the 2021 Annual Report.

# CONSOLIDATED FINANCIAL STATEMENTS

## 3. CASH AND CASH EQUIVALENTS

The following table presents the Company's cash and cash equivalents as of June 30, 2022 and December 31, 2021 (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	\$	\$
Cash at bank and in hand	<b>381,225</b>	663,472
Cash equivalents (i)	<b>299,595</b>	300,628
	<b>680,820</b>	964,100
Denominated in:		
US\$	<b>611,478</b>	932,888
RMB (ii)	<b>63,359</b>	23,791
Hong Kong dollar ("HK\$")	<b>5,138</b>	6,674
Australian dollar ("A\$")	<b>614</b>	475
Taiwan dollar ("TW\$")	<b>231</b>	272
	<b>680,820</b>	964,100

(i) Cash equivalents represent short-term and highly liquid investments in a money market fund.

(ii) Certain cash and bank balances denominated in RMB were deposited with banks in mainland China. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

## 4. ACCOUNTS RECEIVABLE

The following table presents the Company's accounts receivable, based on the invoice date, as of June 30, 2022 and December 31, 2021 (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	\$	\$
Accounts receivable	<b>27,062</b>	47,485
Impairment	<b>(8)</b>	(11)
Total	<b>27,054</b>	47,474

# CONSOLIDATED FINANCIAL STATEMENTS

## 4. ACCOUNTS RECEIVABLE (CONTINUED)

The Company's trading terms with its customers are mainly on credit, and the credit period generally ranges from 40 to 90 days. The Company seeks to maintain strict control over its outstanding receivables, and overdue balances are regularly reviewed. The Company does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

The following table presents an aging analysis of the accounts receivable, based on the invoice date (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	\$	\$
Within 3 months	<b>27,054</b>	47,474

## 5. INVENTORIES, NET

The Company's net inventory balance of \$23.3 million and \$19.0 million as of June 30, 2022 and December 31, 2021, respectively, mainly consisted of finished goods purchased from Tesaro Inc., now GlaxoSmithKline ("GSK"), for distribution in Hong Kong, from NovoCure Limited ("NovoCure") for distribution in Hong Kong and mainland China, and from Deciphera Pharmaceuticals, LLC ("Deciphera") for distribution in Hong Kong, mainland China, and Taiwan, as well as finished goods and certain raw materials for ZEJULA and NUZYRA commercialization in mainland China. The following table presents the Company's inventories, net, as of June 30, 2022 and December 31, 2021 (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	\$	\$
Finished goods	<b>4,342</b>	5,632
Raw materials	<b>18,476</b>	13,231
Work in Progress	<b>521</b>	88
Inventories, net	<b>23,339</b>	18,951

The Company writes down inventory for any excess or obsolete inventories or when the Company believes that the net realizable value of inventories is less than the carrying value. The Company recorded write-downs of \$0.2 million and \$0.3 million in cost of sales during the six months ended June 30, 2022 and 2021, respectively.

## CONSOLIDATED FINANCIAL STATEMENTS

### 6. PROPERTY AND EQUIPMENT, NET

The following table presents the Company's components of property and equipment, net as of June 30, 2022 and December 31, 2021 (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	\$	\$
Office equipment	<b>822</b>	836
Electronic equipment	<b>6,370</b>	5,036
Vehicle	<b>210</b>	220
Laboratory equipment	<b>18,593</b>	17,069
Manufacturing equipment	<b>13,984</b>	14,600
Leasehold improvements	<b>10,230</b>	10,432
Construction in progress	<b>15,343</b>	11,334
	<b>65,552</b>	59,527
Less: accumulated depreciation	<b>(19,133)</b>	(16,425)
Property and equipment, net	<b>46,419</b>	43,102

Depreciation expense was \$3.6 million and \$2.7 million for the six months ended June 30, 2022 and 2021, respectively.

### 7. ACCOUNTS PAYABLE

The following table presents an aging analysis of the accounts payable, based on the invoice date, as of June 30, 2022 and December 31, 2021 (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	\$	\$
Within 3 months	<b>107,498</b>	125,709
3 months to 6 months	<b>731</b>	416
6 months to 1 year	<b>199</b>	22
Over 1 year	<b>15</b>	16
Total	<b>108,443</b>	126,163

The accounts payable are non-interest-bearing and repayable within the normal operating cycle or on demand.

# CONSOLIDATED FINANCIAL STATEMENTS

## 8. REVENUE

### Product revenue, net

The Company's product revenue is primarily derived from the sales of ZEJULA, Optune, QINLOCK, and NUZYRA in mainland China and Hong Kong. The table below presents the Company's net product sales for the six months ended June 30, 2022 and 2021 (in thousands):

	Six Months Ended June 30,	
	2022	2021
	\$	\$
Product revenue — gross	<b>107,649</b>	87,935
Less: Rebate and sales return	<b>(13,979)</b>	(30,897)
Product revenue — net	<b>93,670</b>	57,038

Sales rebates are offered to distributors in mainland China, and the amounts are recorded as a reduction of revenue. Estimated rebates are determined based on contracted rates, sales volumes, and level of distributor inventories.

The Company lowered the selling price of ZEJULA due to its inclusion in the NRDL for certain therapies. Accordingly, the Company accrued \$2.9 million and \$22.0 million for sales rebates as compensation to distributors in mainland China for those products previously sold at the price prior to the NRDL implementation during the six months ended June 30, 2022 and 2021.

In June 2022, the Company lowered the selling price for QINLOCK and NUZYRA. Accordingly, the Company accrued \$2.9 million of sales rebates as compensation to distributors in mainland China for those products previously sold at the price prior to the reduction during the three months ended June 30, 2022.

The following table presents net revenue by product for the six months ended June 30, 2022 and 2021 (in thousands):

	Six Months Ended June 30,	
	2022	2021
	\$	\$
ZEJULA	<b>63,649</b>	35,972
Optune	<b>24,389</b>	16,665
QINLOCK	<b>3,582</b>	4,401
NUZYRA	<b>2,050</b>	—
Product revenue — net	<b>93,670</b>	57,038

# CONSOLIDATED FINANCIAL STATEMENTS

## 8. REVENUE (CONTINUED)

### Collaboration revenue

The Company's collaboration revenue for the six months ended June 30, 2022 of \$1.2 million was from its collaborative arrangement with Huizheng (Shanghai) Pharmaceutical Technology Co., Ltd.

## 9. INCOME TAX

No provision for income taxes has been required to be accrued because the Company is in cumulative loss positions for the periods presented.

The Company recorded a full valuation allowance against deferred tax assets of all its consolidated entities because all entities were in a cumulative loss position as of June 30, 2022 and December 31, 2021. No unrecognized tax benefits and related interest and penalties were recorded in the periods presented.

## 10. OTHER CURRENT LIABILITIES

The following table presents the Company's other current liabilities as of June 30, 2022 and December 31, 2021 (in thousands):

	<b>June 30, 2022</b>	December 31, 2021
	\$	\$
Payroll	<b>18,976</b>	25,685
Accrued rebate to distributors	<b>11,249</b>	15,001
Tax payables	<b>9,896</b>	8,817
Accrued professional service fee	<b>6,450</b>	4,319
Other (i)	<b>5,827</b>	4,421
Payables for purchase of property and equipment	<b>1,212</b>	2,568
Total	<b>53,610</b>	60,811

- (i) Other primarily consists of tax withholding related to share-based compensation and accrued travel and business entertainment expenses.

# CONSOLIDATED FINANCIAL STATEMENTS

## 11. LOSS PER SHARE

The following table presents the computation of the basic and diluted net loss per share for the six months ended June 30, 2022 and 2021 (in thousands, except share and per share data):

	Six Months Ended June 30,	
	2022	2021
	\$	\$
Numerator:		
Net loss attributable to ordinary shareholders	<b>(220,327)</b>	(396,234)
Denominator:		
Weighted average number of ordinary shares — basic and diluted	<b>956,603,250</b>	907,231,320
Net loss per share — basic and diluted	<b>(0.23)</b>	(0.44)

As a result of the Company's net loss for the six months ended June 30, 2022 and 2021, share options and non-vested restricted shares outstanding in the respective periods were excluded from the calculation of diluted loss per share as their inclusion would have been anti-dilutive.

	June 30,	June 30,
	2022	2021
Share options	<b>91,546,280</b>	86,294,400
Non-vested restricted shares	<b>34,356,250</b>	6,325,350

## 12. RELATED PARTY TRANSACTIONS

The Company incurred research and development expenses for product research and development services provided by MEDx (Suzhou) Translational Medicine Co., Ltd ("MEDx"), over which an immediate family member of our Chief Executive Officer and Chairperson of the Board held significant influence. The Company incurred development expenses with MEDx of \$0.1 million and \$0.2 million during the six months ended June 30, 2022, and 2021, respectively.

# CONSOLIDATED FINANCIAL STATEMENTS

## 13. SHARE-BASED COMPENSATION

In March 2015, the Board approved the 2015 Plan, pursuant to which the Board could grant options to purchase ordinary shares to management including officers, directors, employees, and individual advisors who rendered services to the Company. In August 2017, in connection with the completion of the initial public offering (the “IPO”) of the Company, the Board approved the 2017 Plan. All equity-based awards subsequent to the IPO would be granted under the 2017 Plan. The 2017 Plan provided for an automatic annual increase to the number of ordinary shares reserved under the 2017 Plan on each January 1st between January 1, 2018 and January 1, 2027 equal to the lesser of 4% of the number of ordinary shares outstanding as of the close of business on the immediately prior December 31st or such number as approved by the Board on or prior to such date each year. The aggregate number of shares reserved and available for issuance under the 2017 Plan as of April 1, 2022 was 75,562,170.

On June 22, 2022, at the 2022 Annual General Meeting of Shareholders of the Company (the “Annual General Meeting”), the Company’s shareholders approved the 2022 Plan, which was previously approved by the Board on April 20, 2022, conditioned on and subject to (i) the dual primary listing of the Company on the Main Board of the Hong Kong Stock Exchange) and (ii) the granting of a waiver on Note 1 to Rule 17.03(9) of the HK Listing Rules. The Company’s voluntary conversion of its secondary listing status to primary listing status on the Hong Kong Stock Exchange became effective on June 27, 2022, and the waiver was granted to the Company in connection with the primary conversion. As such, the 2022 Plan became effective on June 27, 2022, and the aggregate number of shares that may be delivered in satisfaction of awards under the 2022 Plan is 97,908,743 ordinary shares as of June 22, 2022. No new grants will be made under the 2015 Plan or the 2017 Plan as of the effective date of the 2022 Plan.

For the six months ended June 30, 2022, the Company granted 17,885,480 share options and 27,360,150 share of non-vested restricted shares to certain management and employees of the Company under the 2017 Plan. The share options were granted at an exercise price ranging from \$2.95 to \$6.29 per share with a weighted-average grant-date fair value of \$2.84 per share.

The options granted have a contractual term of ten years and generally vest over a five-year period, with 20% of the awards vesting beginning on the anniversary date one year after the grant date. The restricted shares granted to employees vest over a five- or four-year period, with 20% or 25% of the awards vesting beginning on the anniversary date one year after the grant date. The restricted shares granted to independent directors will vest and be released from the restrictions in full on the first anniversary from the date of the agreement. Upon termination of the award holders’ service with the Company for any reason, any shares that are outstanding and not yet vested will be immediately forfeited.

Upon each settlement date of the stock awards, shares were withheld to cover the required withholding tax, which was based on the value of a share on the settlement date as determined by the closing price of the ADSs on the trading day of the applicable settlement date. The remaining shares after the withholding were delivered to the recipient. The amount remitted to the tax authorities for employee tax obligations was reflected as a financing activity on the condensed consolidated statements of cash flows. These shares withheld by the Company as a result of the net settlement were accounted for as treasury stock and not considered outstanding.

# CONSOLIDATED FINANCIAL STATEMENTS

## 13. SHARE-BASED COMPENSATION (CONTINUED)

Stock-based compensation expense has been reported in the Company's condensed consolidated statements of operations and comprehensive loss as follows (in thousands):

	Six Months Ended June 30,	
	2022	2021
	\$	\$
Selling, general and administrative	15,923	10,432
Research and development	10,712	7,118
Total	26,635	17,550

As of June 30, 2022, there was unrecognized share-based compensation expense of \$121.2 million related to unvested share options which the Company expects to recognize over a weighted-average period of 3.58 years.

As of June 30, 2022, there was unrecognized share-based compensation expense of \$153.8 million related to unvested restricted shares which the Company expects to recognize over a weighted-average period of 3.91 years.

## 14. LICENSES AND COLLABORATIVE ARRANGEMENTS PURSUANT TO WHICH MILESTONE PAYMENTS WERE MADE

The following is a description of the Company's significant ongoing collaboration agreements under which the Company has made milestone payments during the six months ended June 30, 2022.

### Collaboration and license agreement with argenx BV ("argenx")

In January 2021, the Company entered into a collaboration and license agreement with argenx. The Company received an exclusive license to develop and commercialize products containing argenx's proprietary antibody fragment, known as efgartigimod, in Greater China. The Company is responsible for the development of the licensed compound and licensed product and will have the right to commercialize such licensed product in the territory.

## CONSOLIDATED FINANCIAL STATEMENTS

### 14. LICENSES AND COLLABORATIVE ARRANGEMENTS PURSUANT TO WHICH MILESTONE PAYMENTS WERE MADE (CONTINUED)

#### Collaboration and license agreement with argenx BV (“argenx”) (Continued)

Pursuant to the collaboration and license agreement, a share issuance agreement was entered into between the Company and argenx. As the upfront payment to argenx, the Company issued 5,681,820 ordinary shares of the Company with a par value of \$0.000006 per share to argenx on the closing date of January 13, 2021. In determining the fair value of the ordinary shares at closing, the Company considered the closing price of the ordinary shares on the closing date and included a lack of marketability discount because the shares were subject to certain restrictions. The fair value of the shares on the closing date was determined to be \$62.3 million in the aggregate. In addition, the Company made a non-creditable, non-refundable development cost-sharing payment of \$75.0 million to argenx during the first quarter of 2021. In January 2022, the Company made a milestone payment of \$25.0 million to argenx due to the first regulatory approval by the FDA in December 2021 for VYVGART (efgartigimod alfa-fcab). The Company recorded these payments in research and development expenses. Argenx is also eligible to receive tiered royalties (from mid-teen to low-twenties on a percentage basis and subject to certain reductions) based on annual net sales of all licensed product in the territory.

#### License and collaboration agreement with Paratek Bermuda Ltd. (“Paratek”)

In April 2017, the Company entered into a license and collaboration agreement with Paratek Bermuda Ltd., a subsidiary of Paratek Pharmaceuticals, Inc., pursuant to which it obtained both an exclusive license under certain patents and know-how of Paratek and an exclusive sub-license under certain intellectual property that Paratek licensed from Tufts University to develop, manufacture, and commercialize products containing omadacycline (ZL-2401) as an active ingredient in Greater China in the field of all human therapeutic and preventative uses other than biodefense. Under certain circumstances, the exclusive sub-license to certain intellectual property Paratek licensed from Tufts University may be converted to a non-exclusive license if Paratek’s exclusive license from Tufts University is converted to a non-exclusive license under the Tufts Agreement. The Company also obtained the right of first negotiation to be Paratek’s partner to develop certain derivatives or modifications of omadacycline in our licensed territory. Paratek retains the right to manufacture the licensed product in our licensed territory to support development and commercialization of the product outside of our licensed territory. The Company also granted to Paratek a non-exclusive license to certain of our intellectual property. Under the agreement, the Company agreed not to commercialize certain competing products in our licensed territory.

## CONSOLIDATED FINANCIAL STATEMENTS

### 14. LICENSES AND COLLABORATIVE ARRANGEMENTS PURSUANT TO WHICH MILESTONE PAYMENTS WERE MADE (CONTINUED)

#### License and collaboration agreement with Paratek Bermuda Ltd. (“Paratek”) (Continued)

Under the terms of the agreement, the Company made an upfront payment of \$7.5 million to Paratek in 2017, a \$5.0 million milestone payment upon approval by the FDA of an NDA submission in 2018, and a \$3.0 million milestone payment upon submission of the first regulatory approval application for a licensed product in mainland China in 2020. In February 2022, the Company made another milestone payment of \$6.0 million upon regulatory approval of omadacycline for the treatment of adults with Acute Bacterial Skin and Skin Structure Infections and Community-Acquired Bacterial Pneumonia in mainland China in December 2021. The Company may be required to pay further commercial milestone payments of up to \$40.5 million to Paratek for the achievement of certain development and sales milestone events. In addition, the Company will pay Paratek tiered royalties on the net sales of licensed products, until the later of the abandonment, expiration, or invalidation of the last-to-expire licensed patent covering the licensed product, or the eleventh anniversary of the first commercial sale of the licensed product, in each case on a product-by-product and region-by-region basis.

The Company has the right to terminate this agreement at any time by providing written notice of termination to Paratek.

#### Collaboration and license agreement with Mirati Therapeutics, Inc. (“Mirati”)

In May 2021, the Company entered into a collaboration and license agreement with Mirati. The Company obtained the right to research, develop, manufacture, and exclusively commercialize adagrasib in Greater China. The Company will support accelerated enrollment in key global, registration-enabling clinical trials of adagrasib in patients with cancer who have a KRAS<sup>G12C</sup> mutation. Mirati has an option to co-commercialize in Greater China and retains full and exclusive rights to adagrasib in all countries outside of Greater China.

Under the terms of the agreement, the Company paid an upfront payment of \$65.0 million to Mirati in 2021. During the three months ended June 30, 2022, the Company accrued a development milestone payment of \$5.0 million. Mirati is also eligible to receive up to \$268.0 million in-development, regulatory, and sales-based milestone payments. Mirati is also eligible to receive tiered royalties (from high-teens to low-twenties on a percentage basis) based on annual net sales of adagrasib in Greater China.

The Company has the right to terminate this agreement at any time by providing written notice of termination to Mirati.

# CONSOLIDATED FINANCIAL STATEMENTS

## 14. LICENSES AND COLLABORATIVE ARRANGEMENTS PURSUANT TO WHICH MILESTONE PAYMENTS WERE MADE (CONTINUED)

### License agreement with Karuna Therapeutics, Inc. (“Karuna”)

In November 2021, the Company entered into a license agreement with Karuna for the development, manufacturing, and commercialization of KarXT (xanomeline-trospium) in Greater China, including China, Hong Kong, Macau, and Taiwan.

Under the terms of the agreement, the Company paid an upfront payment of \$35.0 million to Karuna. During the three months ended June 30, 2022, the Company accrued a development milestone payment of \$5.0 million. Karuna is also eligible to receive up to \$147.0 million in development and regulatory, and sales-based milestone payments. Karuna is also eligible to receive tiered royalties based on annual net sales of commercialized products in Greater China.

The Company has the right to terminate this agreement by providing written notice of termination to Karuna.

Full details of the licenses and collaborative arrangements are included in the notes to the financial statements in our 2021 Annual Report. As noted above, the Company has entered into various license and collaboration agreements with third party licensors to develop and commercialize product candidates. Based on the terms of these agreements, the Company is contingently obligated to make additional material payments upon the achievement of certain contractually defined milestones. Based on management’s evaluation of the progress of each project noted above, the licensors will be eligible to receive from the Company up to approximately \$5,576.3 million in future contingent development and sales-based milestone payments. The development milestones, such as regulatory approval for the product candidates, may occur before the Company has commercialized the product or received any revenue from sales of such product candidate. These milestone payments are subject to uncertainties and contingencies and may not occur.

# CONSOLIDATED FINANCIAL STATEMENTS

## 15. RESTRICTED NET ASSETS

The Company's ability to pay dividends may depend on the Company receiving distributions of funds from its Chinese subsidiaries. Relevant Chinese laws and regulations permit payments of dividends by the Company's Chinese subsidiaries only out of its retained earnings, if any, as determined in accordance with Chinese accounting standards and regulations. The results of operations reflected in the unaudited condensed consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's Chinese subsidiaries.

In accordance with the Company Law of the People's Republic of China, a domestic enterprise is required to provide statutory reserves of at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise's Chinese statutory accounts. A domestic enterprise may provide discretionary surplus reserve, at the discretion of the Board, from the profits determined in accordance with the enterprise's Chinese statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. The Company's Chinese subsidiaries were established as domestic enterprises and therefore are subject to the above-mentioned restrictions on distributable profits.

During the six months ended June 30, 2022 and 2021, no appropriation to statutory reserves was made because the Company's Chinese subsidiaries had substantial losses during such periods.

As a result of these Chinese laws and regulations, subject to the limits discussed above that require annual appropriations of 10% of after-tax profit to be set aside, prior to payment of dividends, as general reserve fund, the Company's Chinese subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company.

Foreign exchange and other regulation in mainland China may further restrict the Company's Chinese subsidiaries from transferring funds to the Company in the form of dividends, loans, and advances. As of June 30, 2022 and December 31, 2021, amounts restricted are the paid-in capital of the Company's Chinese subsidiaries, which both amounted to \$406.0 million.

## 16. COMMITMENTS AND CONTINGENCIES

### (a) Purchase commitments

As of June 30, 2022, the Company's commitments related to purchase of property and equipment contracted but not yet reflected in the unaudited condensed consolidated financial statement were \$19.5 million which is expected to be incurred within one year.

### (b) Contingencies

The Company is a party to, or assignee of, license and collaboration agreements that may require it to make future payments relating to milestone fees and royalties on future sales of licensed products (Note 14).

## 17. SUBSEQUENT EVENT

The Company evaluated subsequent events and transactions that occurred after the balance sheet date up to the date financial statements were issued. The Company did not identify any subsequent events that would have required adjustment or disclosure in the financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS

## 18. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The condensed consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from IFRS. The effects of material differences on the financial information of the Company prepared under U.S. GAAP and IFRS are as follows (in thousands):

### (i) Reconciliation of consolidated statements of operations

	Six months ended June 30, 2022		
	Amounts as reported under U.S. GAAP	IFRS adjustments	Amounts as reported under IFRS
		Share-based compensation (note (i))	
<b>Consolidated statements of operations</b>			
Expenses			
Research and development	(119,938)	(2,057)	(121,995)
Selling, general and administrative	(120,392)	(5,305)	(125,697)
Net loss	(220,327)	(7,362)	(227,689)
Net loss attributable to ordinary shareholders	(220,327)	(7,362)	(227,689)

	Six months ended June 30, 2021		
	Amounts as reported under U.S. GAAP	IFRS adjustments	Amounts as reported under IFRS
		Share-based compensation (note (i))	
<b>Consolidated statements of operations</b>			
Expenses			
Research and development	(346,076)	(2,330)	(348,406)
Selling, general and administrative	(90,252)	(3,407)	(93,659)
Net loss	(396,234)	(5,737)	(401,971)
Net loss attributable to ordinary shareholders	(396,234)	(5,737)	(401,971)

# CONSOLIDATED FINANCIAL STATEMENTS

## 18. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### (ii) Reconciliation of consolidated balance sheets

	As at June 30, 2022		
	Amounts as reported under U.S. GAAP	IFRS adjustments	Amounts as reported under IFRS
<b>Consolidated balance sheets</b>		<b>Share-based compensation (note (i))</b>	
Additional paid-in capital	2,857,202	38,062	2,895,264
Accumulated deficit	(1,638,401)	(38,062)	(1,676,463)
Total shareholders' equity	1,212,165	—	1,212,165

	As at December 31, 2021		
	Amounts as reported under U.S. GAAP	IFRS adjustments	Amounts as reported under IFRS
<b>Consolidated balance sheets</b>		<b>Share-based compensation (note (i))</b>	
Additional paid-in capital	2,825,948	30,700	2,856,648
Accumulated deficit	(1,418,074)	(30,700)	(1,448,774)
Total shareholders' equity	1,379,956	—	1,379,956

Notes:

#### (i) Share based compensation

Under U.S. GAAP, the Company has elected to use the straight-line method to recognize compensation expense for instruments granted to employees with graded vesting based on service conditions, subject to the minimum amount of cumulative compensation expense recognized is not less than the portion of the award vested to date.

# CONSOLIDATED FINANCIAL STATEMENTS

## 18. RECONCILIATION BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### (ii) Reconciliation of consolidated balance sheets (Continued)

Notes: (Continued)

#### (i) Share based compensation (Continued)

Under IFRS, the graded vesting method must be applied to recognize compensation expense.

In addition, under U.S. GAAP, the Company has elected to recognize the effect of forfeitures as they occur, and previously recognized compensation cost is reversed in the period that the award is forfeited.

Under IFRS, the number of instruments that are expected to vest are estimated by the Company initially. Subsequently, these estimates are trued up for differences between the number of instruments expected to vest and the actual number of instruments vested.

A difference of \$7.4 million and \$5.7 million arose between the amount of share-based compensation (included in research and development expenses, and selling, general and administrative expenses) recognized under U.S. GAAP and IFRS for the six months ended June 30, 2022 and 2021, respectively.

The accumulated difference on share-based compensation recognized in expenses and additional paid in capital under U.S. GAAP and IFRS was \$38.1 million, and net impact on the accumulated deficit was \$30.7 million as of December 31, 2021.

#### (ii) Lease

Under U.S. GAAP, as a lessee, the Company recognized a lease liability based on the present value of the total remaining lease payments and a corresponding right of use asset. The amortization of the right-of-use assets and the interest expenses related to the lease liabilities are recorded together as a single total lease expense on a straight-line basis on the condensed consolidated statement of operations.

Under IFRS, the amortization of the right-of-use assets is recognized on a straight-line basis while the interest expense related to the lease liabilities is recognized on the basis that the lease liabilities are measured at amortized cost. Compared to U.S. GAAP, this changes the allocation and the total amount of expenses recognized for each period of the lease terms, and results in a higher total charge to profit or loss in the early years and a decreasing expense during the latter years of the lease terms. The amortization on the right-of-use assets and the interest expense on the lease liabilities are separately recorded on the condensed consolidated statement of operations.

Based on the Company's assessment, the differences on lease recognized under U.S. GAAP and IFRS did not have material impact on the condensed consolidated financial statements as of June 30, 2022 and December 31, 2021, respectively, and for the six months ended June 30, 2022 and 2021, respectively.

# DEFINITIONS

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“2015 Plan”	the 2015 Equity Incentive Plan approved by the Board on March 5, 2015 and most recently amended effective on April 10, 2016
“2017 Plan”	the 2017 Equity Incentive Plan approved by the Board on August 7, 2017
“2021 Annual Report”	Annual Report of the Company on Form 10-K for the year ended December 31, 2021 filed with the SEC on March 1, 2022
“2022 Plan”	the 2022 Equity Incentive Plan approved by the Board and at the Company’s 2022 annual general meeting of shareholders on April 20, 2022 and June 22, 2022, respectively
“AACR”	American Association for Cancer Research
“ADS(s)”	American depositary share(s), each representing ten ordinary shares, on deposit with a U.S. banking institution selected by the Company and which are registered pursuant to a Form F-1
“affiliate(s)”	with respect to any specified person or any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“ASCO”	American Society of Clinical Oncology
“Board”	the board of directors of the Company
“BTD”	breakthrough therapy designation
“CDE”	Center for Drug Evaluation of the NMPA
“chief executive”	has the meaning ascribed to it in the HK Listing Rules
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the HK Listing Rules
“China” or the “PRC”	the People’s Republic of China
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“Company”, “we” or “us”	Zai Lab Limited, a company incorporated in the Cayman Islands with limited liability on March 28, 2013, and its subsidiaries from time to time
“Director(s)”	the member(s) of the Board
“FDA”	United States Food and Drug Administration
“Global Offering”	the global offering of the Company as described in the Prospectus
“Greater China”	mainland China, Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan
“HFCAA”	Holding Foreign Companies Accountable Act
“HK dollar” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

## DEFINITIONS

“HK 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
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the HK Listing Rules
“Nasdaq”	Nasdaq Global Market
“NDA”	new drug application
“NMPA”	National Medical Products Administration of the People’s Republic of China
“NRDL”	National Reimbursement Drug List
“ordinary share(s)”	ordinary share(s) in the authorized share capital of the Company with a par value of \$0.000006 per share (or \$0.00006 per share where “before Share Subdivision” is indicated)
“PCAOB”	U.S. Public Company Accounting Oversight Board
“Primary Conversion Effective Date”	the date on which the Company’s voluntary conversion from secondary listing status to primary listing on the Hong Kong Stock Exchange became effective, i.e., June 27, 2022
“Prospectus”	the prospectus of the Company dated September 17, 2020
“R&D”	research and development
“Reporting Period”	the six months ended June 30, 2022
“RMB” or “Renminbi”	Renminbi, the lawful currency of PRC
“RSU(s)”	restricted share unit(s)
“SEC”	U.S. Securities and Exchange Commission
“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), or ADS(s) represented by such number of ordinary shares
“Shareholder(s)”	holder(s) of the Share(s)
“Share Subdivision”	the subdivision of each of the Company’s issued and unissued ordinary shares into ten ordinary shares effective as of March 30, 2022

## DEFINITIONS

“subsidiary(ies)”	has the meaning ascribed to it thereto in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it in the HK Listing Rules
“supplemental insurance plans”	regional customized commercial health insurance plans guided by provincial or municipal governments
“United States” or “U.S.”	the United States of America, its territories, its possessions, and all areas subject to its jurisdiction
“U.S. dollars”, “US\$”, or “\$”	United States dollars, the lawful currency of the United States
“U.S. GAAP”	United States generally accepted accounting principles

# GLOSSARY OF TECHNICAL TERMS

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“CI”	confidence interval
“CNS”	central nervous system
“cORR”	confirmed objective response rate
“CR”	complete response
“DCR”	disease control rate
“EGFR”	epidermal growth factor receptor
“HR”	hazard ratio
“IC”	intracranial
“mDOR”	median duration of response
“mFOLFOX6”	modified FOLFOX6
“mOS”	median overall survival
“mPFS”	median progression-free survival
“NSCLC”	non-small cell lung cancer
“ORR”	objective response rate
“PANSS”	Positive and Negative Syndrome Scale
“PFS”	progression-free survival
“PR”	partial response
“TKI”	tyrosine kinase inhibitor
“TTFIELDS”	Tumor Treating Fields

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