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绿竹生物

LUZHU BIOTECH

Beijing Luzhu Biotechnology Co., Ltd.

北京綠竹生物技術股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2480)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2023**

The board (the “**Board**”) of directors (the “**Directors**”) of Beijing Luzhu Biotechnology Co., Ltd. (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2023 (the “**Reporting Period**”), together with comparative figures for the year ended December 31, 2022.

FINANCIAL HIGHLIGHTS

	For the year ended		Change (%)
	December 31, 2023 RMB'000	2022 RMB'000	
Other income	20,085	13,923	44.3
Other gains and losses, net	18,167	15,100	20.3
Fair value loss of financial liabilities at fair value through profit or loss (“FVTPL”)	–	(551,546)	(100.0)
Administrative expenses	(87,011)	(85,830)	1.4
Research and development expenses	(172,685)	(91,426)	88.9
Finance costs	(844)	(722)	16.9
Listing expenses	(26,459)	(21,542)	22.8
Other expenses	(603)	(3,137)	(80.8)
Loss before tax	(249,350)	(725,180)	(65.6)
Income tax expense	–	–	–
Loss and total comprehensive expense for the year	(249,350)	(725,180)	(65.6)
Non-IFRS Measure			
Adjusted loss for the year ^(Note)	(222,891)	(152,092)	46.6

Note: Adjusted for (i) fair value loss of financial liabilities at FVTPL, and (ii) listing expenses.

BUSINESS HIGHLIGHTS

On May 8, 2023, the Company was successfully listed on the Stock Exchange. In addition, following the obtaining of the Drug Production License (藥品生產許可證) issued by the Guangdong Medical Products Administration (廣東省藥品監督管理局) in January 2023, the Group completed the Phase II clinical trial of LZ901 in China in May 2023, and the results were statistically and clinically meaningful, and demonstrated a favorable profile. No Grade IV adverse events (“AEs”) and no serious AEs had been observed during the Phase II clinical trial of LZ901 in China. Riding on the Phase II clinical trial data which provide definitive basis for the Phase III clinical trial, the Group initiated the multi-center, randomized, double-blind, placebo-controlled Phase III clinical trial of LZ901 in China in September 2023, and completed the enrollment of subjects in January 2024. A total of approximately 26,000 healthy subjects aged 40 years and older were enrolled across four provinces including Jiangsu, Shandong, Hubei and Shanxi. Apart from China, the Group also initiated a Phase I clinical trial for LZ901 in the U.S. in February 2023, and has completed its subject enrollment in July 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2023

		For the year ended	
		December 31,	
	<i>Notes</i>	2023	2022
		RMB'000	RMB'000
Other income	5	20,085	13,923
Other gains and losses, net	6	18,167	15,100
Fair value loss of financial liabilities at FVTPL	23	–	(551,546)
Administrative expenses		(87,011)	(85,830)
Research and development expenses		(172,685)	(91,426)
Finance costs	7	(844)	(722)
Listing expenses		(26,459)	(21,542)
Other expenses		(603)	(3,137)
		<hr/>	<hr/>
Loss before tax		(249,350)	(725,180)
Income tax expense	8	–	–
		<hr/>	<hr/>
Loss and total comprehensive expense for the year	9	(249,350)	(725,180)
		<hr/>	<hr/>
Loss per share (RMB)	11		
Basic		(1.25)	(4.98)
		<hr/>	<hr/>
Diluted		(1.25)	(4.98)
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2023

	<i>Notes</i>	As at December 31,	
		2023	2022
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>12</i>	383,905	229,627
Right-of-use assets	<i>13</i>	104,591	62,462
Intangible assets	<i>14</i>	4,127	3,437
Prepayments, deposits and other receivables	<i>16</i>	53,099	173,640
		<u>545,722</u>	<u>469,166</u>
CURRENT ASSETS			
Materials	<i>15</i>	3,477	2,535
Prepayments, deposits and other receivables	<i>16</i>	9,168	16,829
Financial assets at FVTPL	<i>17</i>	343,345	512,664
Bank balances	<i>18</i>	264,982	68,976
		<u>620,972</u>	<u>601,004</u>
CURRENT LIABILITIES			
Advance payments received and other payables	<i>19</i>	89,183	84,714
Lease liabilities	<i>20</i>	129	–
Bank borrowing	<i>22</i>	7,000	–
Deferred government grants	<i>21</i>	–	9,400
		<u>96,312</u>	<u>94,114</u>
NET CURRENT ASSETS		<u>524,660</u>	<u>506,890</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,070,382</u>	<u>976,056</u>
NON-CURRENT LIABILITIES			
Lease liabilities	<i>20</i>	12,087	11,219
Deferred government grants	<i>21</i>	37,667	27,371
		<u>49,754</u>	<u>38,590</u>
NET ASSETS		<u>1,020,628</u>	<u>937,466</u>
CAPITAL AND RESERVES			
Share capital	<i>24</i>	202,450	192,064
Reserves		818,178	745,402
TOTAL EQUITY		<u>1,020,628</u>	<u>937,466</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

1. GENERAL INFORMATION

Beijing Luzhu Biotechnology Co., Ltd. (the “**Company**”) was established as a limited liability company in Beijing, the People’s Republic of China (the “**PRC**”) on November 9, 2001. The Company was converted into a joint stock company with limited liability under the Company Law of the PRC on July 19, 2013. The address of the registered office and the principal place of business of the Company is No. 3 Guangtong Street, Industrial Development Zone, Tongzhou District, Beijing, PRC. The controlling shareholders of the Company are Mr. Kong Jian and his spouse, namely Ms. Zhang Yanping through their direct or indirect interests held in the Company.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effect from May 8, 2023.

The Company and its subsidiaries are principally engaged in research, development and production of vaccines and therapeutic biologics in the PRC. The Company and its subsidiaries are hereinafter collectively referred to as the “**Group**”.

The consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

New and Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (“**IASB**”) for the first time, which are mandatorily effective for the Group’s annual period beginning on January 1, 2023 for the preparation of the consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two Model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

Except as Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with IFRSs issued by IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. SEGMENT INFORMATION

For the purposes of resources allocation and performance assessment, the executive directors of the Company, being the chief operating decision makers, review the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one operating and reportable segment and no further analysis of this single segment is presented.

The Group did not record any revenue during the year ended December 31, 2023 (year ended December 31, 2022: nil). As at December 31, 2023, the Group's non-current assets excluding financial instruments amounting to RMB545,391,000 (December 31, 2022: RMB468,853,000) are all located in Mainland China, accordingly, no analysis of geographical information is presented.

5. OTHER INCOME

	For the year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Income from sales of immunoreagent testing kits (<i>Note</i>)	1,802	2,056
Government grants related to		
– Plant and machinery (<i>Note 21</i>)	2,235	195
– Right-of-use assets (<i>Note 21</i>)	2,869	2,935
– Research and development activities (<i>Note 21</i>)	–	8,400
– IPO success subsidy	7,000	–
– Others	170	88
Interest income on bank balances	5,991	223
Interest income from rental deposits	18	26
Total	<u>20,085</u>	<u>13,923</u>

Note: An analysis of the Group's income from sales of immunoreagent testing kits is as follows:

	For the year ended December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Type of goods		
Immunoreagent testing kits	<u>1,802</u>	<u>2,056</u>
Timing of recognition		
At a point in time	<u>1,802</u>	<u>2,056</u>

During the year, the Group sells immunoreagent testing kits to pharmaceutical companies. Sale of immunoreagent testing kits is not considered the principal business of the Group. For sales of immunoreagent testing kits to its customer, income is recognized when customer obtains control of the goods, being at the point the goods are delivered to the customer. The Group usually requires 100% upfront payments from its customers and occasionally allows a credit period of 30 days to its customers. The transaction price received by the Group is recognized as contract liability until the immunoreagent testing kits are delivered to the customer.

Sales of immunoreagent testing kits are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

During the year, income from sales of immunoreagent testing kits of the corresponding years contributing over 10% of such income of the Group are as follows:

	For the year ended December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	550	853
Customer B	318	359
Customer C	228	–
Customer D	N/A*	351

* The corresponding income did not contribute over 10% of total income from sales of immunoreagent testing kits of the Group for the relevant year.

6. OTHER GAINS AND LOSSES, NET

	For the year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Fair value gains on financial assets at FVTPL	11,377	13,868
Gain (loss) on disposal of property, plant and equipment	56	(3)
Foreign exchange gains, net	6,734	996
Gain on early termination of a lease	–	239
	<hr/>	<hr/>
Total	18,167	15,100

7. FINANCE COSTS

	For the year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Interest on bank borrowing	163	–
Interest on lease liabilities	681	722
	<hr/>	<hr/>
Total	844	722

8. INCOME TAX EXPENSE AND DEFERRED TAXATION

Income tax expense

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulations of the EIT Law, the statutory tax rate of the Company and its PRC subsidiaries is 25% for both years.

Pursuant to the notice of the Ministry of Finance and the State Administration of Taxation on extending the loss carrying forward period of high and new technology enterprises and high-tech small and medium enterprises (Cai Shui [2018] No. 76), with effect from January 1, 2018, for qualified high and new technology enterprises and high-tech small and medium enterprises, the unutilized tax losses incurred in the previous 5 years can be utilized in 10 years from the year of loss. The Company was qualified as high and new technology enterprise from October 31, 2018 to October 31, 2021 and the unutilized tax losses of the Company incurred between year 2013 and year 2020 will be expired in 10 years from the year of loss.

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group’s Hong Kong subsidiary that was subject to Hong Kong profit tax for both years.

No provision for PRC income tax was made as the Company and its PRC subsidiaries incurred tax losses for both years.

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

	For the year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Loss before tax	(249,350)	(725,180)
Tax at the statutory tax rate of 25% (2022: 25%)	(62,338)	(181,295)
Tax effect of expenses not deductible for tax purpose	19,249	152,320
Tax effect of income not taxable for tax purpose	-	(333)
Tax effect of super deduction for research and development expenses (<i>Note</i>)	(38,481)	(4,179)
Tax effect of deductible temporary differences not recognized	1,229	13,532
Tax effect of tax losses not recognized and utilization of tax losses not recognized in prior years	<u>80,341</u>	<u>19,955</u>
	<u>-</u>	<u>-</u>

Note: Pursuant to Cai Shui [2018] No. 99 and Cai Shui [2021] No. 6, the Company and Luzhu Biopharmaceuticals (Zhuhai) Co., Ltd.* (綠竹生物製藥(珠海市)有限公司) (“Zhuhai Luzhu”) are entitled to claim 175% qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits from January 1, 2018 to December 31, 2023. Pursuant to Caishui [2021] circular No. 13, the Group enjoys accelerated deduction of 200% on qualifying research and development expenses from January 1, 2022.

* *English name is for identification purpose only.*

9. LOSS FOR THE YEAR

	For the year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Loss for the year has been arrived at after charging:		
Staff costs, including directors' and supervisors' remuneration		
– salaries and other allowances	26,474	21,037
– retirement benefits	2,261	1,625
– equity-settled share-based payments included in administrative expenses	57,197	68,925
– equity-settled share-based payments included in research and development expenses	16,387	42,488
	<u>102,319</u>	<u>134,075</u>
Total staff costs		
Auditor's remuneration	2,300	27
Listing expenses	26,459	21,542
Depreciation of property, plant and equipment	11,438	5,286
Depreciation of right-of-use assets	4,870	4,463
Amortization of intangible assets	214	135
Less: capitalized in construction in process	(414)	–
	<u>16,108</u>	<u>9,884</u>
Total depreciation and amortization		
Short-term leases expense	143	124
Cost of materials included in research and development expenses	2,873	7,941
Outsourcing service fees included in research and development expenses	125,090	17,849
	<u><u>125,090</u></u>	<u><u>17,849</u></u>

10. DIVIDENDS

No dividend was paid or declared by the Company and its subsidiaries during the year ended December 31, 2023, nor has any dividend declaration been proposed since the end of the reporting period (year ended December 31, 2022: nil).

11. LOSS PER SHARE

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

	For the year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Loss		
Loss for the year attributable to owners of the Company	<u>(249,350)</u>	<u>(725,180)</u>
	For the year ended December 31,	
	2023	2022
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>198,835</u>	<u>145,512</u>

There are no potential ordinary shares in issue for the purpose of calculation of diluted loss per share for the year ended December 31, 2023. For the purpose of calculation of diluted loss per share for the year ended December 31, 2022, financial liabilities at FVTPL as detailed in Note 23 and directors options were not included as their inclusion would result in a decrease in loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Property RMB'000	Leasehold improvement RMB'000	Machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At January 1, 2022	17,006	3,547	14,651	2,459	1,420	60,148	99,231
Additions	-	-	7,218	-	825	150,844	158,887
Transfer	-	18,257	39,921	-	-	(58,178)	-
Disposals	-	-	(67)	-	(5)	-	(72)
At December 31, 2022	17,006	21,804	61,723	2,459	2,240	152,814	258,046
Additions	-	-	1,536	649	220	163,360	165,765
Transfer	199,368	1,043	1,845	-	-	(202,256)	-
Disposals	-	-	-	(972)	(8)	-	(980)
At December 31, 2023	216,374	22,847	65,104	2,136	2,452	113,918	422,831
ACCUMULATED DEPRECIATION							
At January 1, 2022	(13,261)	(178)	(7,805)	(1,422)	(536)	-	(23,202)
Provided for the year	(1,176)	(1,420)	(2,142)	(268)	(280)	-	(5,286)
Disposals	-	-	64	-	5	-	69
At December 31, 2022	(14,437)	(1,598)	(9,883)	(1,690)	(811)	-	(28,419)
Provided for the year	(1,176)	(2,622)	(6,921)	(319)	(400)	-	(11,438)
Disposals	-	-	-	923	8	-	931
At December 31, 2023	(15,613)	(4,220)	(16,804)	(1,086)	(1,203)	-	(38,926)
CARRYING VALUES							
At December 31, 2022	2,569	20,206	51,840	769	1,429	152,814	229,627
At December 31, 2023	200,761	18,627	48,300	1,050	1,249	113,918	383,905

Property, plant and equipment other than construction in progress are depreciated using the straight-line method after taking into account of their estimated residual values with the following useful lives:

Property	10 to 20 years
Leasehold improvement	Shorter of lease terms and 10 years
Machinery	3 to 10 years
Vehicles	4 to 5 years
Office equipment	3 to 5 years

13. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leasehold properties RMB'000	Total RMB'000
COST			
At January 1, 2022	50,700	24,342	75,042
Addition	–	3,527	3,527
Early termination of a lease	–	(3,527)	(3,527)
	<u>50,700</u>	<u>24,342</u>	<u>75,042</u>
At December 31, 2022	50,700	24,342	75,042
Addition	46,622	377	46,999
	<u>46,622</u>	<u>377</u>	<u>46,999</u>
At December 31, 2023	<u>97,322</u>	<u>24,719</u>	<u>122,041</u>
ACCUMULATED DEPRECIATION			
At January 1, 2022	(6,176)	(2,686)	(8,862)
Charge for the year	(1,098)	(3,365)	(4,463)
Early termination of a lease	–	745	745
	<u>(6,176)</u>	<u>(2,686)</u>	<u>(8,862)</u>
At December 31, 2022	(7,274)	(5,306)	(12,580)
Charge for the year	(2,287)	(2,583)	(4,870)
	<u>(2,287)</u>	<u>(2,583)</u>	<u>(4,870)</u>
At December 31, 2023	<u>(9,561)</u>	<u>(7,889)</u>	<u>(17,450)</u>
CARRYING VALUES			
At December 31, 2022	43,426	19,036	62,462
	<u>43,426</u>	<u>19,036</u>	<u>62,462</u>
At December 31, 2023	<u>87,761</u>	<u>16,830</u>	<u>104,591</u>
For the year ended December 31,			
		2023	2022
		RMB'000	RMB'000
Expense relating to short-term leases		<u>143</u>	<u>124</u>
Total cash outflow for leases		<u>1,818</u>	<u>46,021</u>

Right-of-use assets are depreciated on a straight-line basis over the lease terms.

The Group leases lands and properties to operate its business. These leases are made for fixed terms of 3 to 50 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions.

The Group's lease agreements do not contain any contingent rent nor any extension, termination or purchase option for lessee. Other than leasehold lands, the lease agreements do not impose any covenants other than the security interests in the leased properties that are held by the lessor. Leased properties may not be used as security for borrowing purposes.

In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns buildings where its research and development facilities are primarily located. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for properties and office equipment.

14. INTANGIBLE ASSETS

	License right RMB'000
COST	
At January 1, 2022	–
Addition	<u>3,572</u>
At December 31, 2022	3,572
Addition	<u>904</u>
At December 31, 2023	<u><u>4,476</u></u>
AMORTIZATION	
At January 1, 2022	–
Charge for the year	<u>(135)</u>
At December 31, 2022	<u>(135)</u>
Charge for the year	(214)
At December 31, 2023	<u><u>(349)</u></u>
CARRYING VALUE	
At December 31, 2022	<u>3,437</u>
At December 31, 2023	<u><u>4,127</u></u>

In May 2022, the Company entered into a licensing agreement with an independent third party regarding a non-exclusive license right including intellectual property rights, compounds and products for the clinical trial and future production of the Group's products. Under the terms of the agreement, the total upfront payment was cash consideration of Great Britain Pound (“GBP”) 440,000. The Group also agreed to pay the counterparty future clinical development milestone payments, commercialization milestone payments, as well as royalties on manufacturing and sales of the product under the corresponding research and development project using the rights under the licensing agreement.

In September 2023, the Group paid the counterparty clinical development milestone payments of GBP 100,000.

The license right is amortized over 18 years which is based on the terms of the licensing agreement and the estimated duration of product sales, whichever is shorter.

15. MATERIALS

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Materials for research and development projects	3,257	2,370
Immunoreagent testing kits	220	165
Total	<u>3,477</u>	<u>2,535</u>

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Value added tax recoverable	39,762	19,129
Prepayments for purchase of property, plant and equipment	13,499	108,921
Prepayments to suppliers and service providers	7,930	4,901
Rental deposits	331	313
Prepayments for right-of-use assets	–	45,277
Deferred share issue costs for IPO	–	11,350
Others	745	578
Total	<u>62,267</u>	<u>190,469</u>
Analyzed as:		
Non-current	53,099	173,640
Current	9,168	16,829
Total	<u>62,267</u>	<u>190,469</u>

17. FINANCIAL ASSETS AT FVTPL

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets at FVTPL	<u>343,345</u>	<u>512,664</u>
Financial assets at FVTPL denominated in:		
RMB	179,358	512,664
United States dollars (“US\$ “)	<u>163,987</u>	<u>–</u>
	<u>343,345</u>	<u>512,664</u>

The Group invested in certain financial products managed by banks and financial institutions which can be redeemed at any time or at maturity within one year. There is no predetermined or guaranteed return for each product. Such financial products are accounted for as financial assets at FVTPL under IFRS 9.

18. BANK BALANCES

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Term deposits with original maturity over three months	7,091	–
Cash and cash equivalents as stated in the consolidated statement of cash flows	<u>257,891</u>	<u>68,976</u>
Bank balances	<u>264,982</u>	<u>68,976</u>
Bank balances denominated in:		
RMB	177,780	63,644
US\$	166	5,332
HK\$	<u>87,036</u>	<u>–</u>
	<u>264,982</u>	<u>68,976</u>

Term deposits with original maturity over three months carry interest at market rates of 1.90% (December 31, 2022: nil) per annum as at December 31, 2023.

Cash and cash equivalents comprise cash at banks and term deposits with original maturity of three months or less which are held within banks and carry interest at market rate of 0.01% to 4.45% (December 31, 2022: 0.01% to 1.90%) per annum as at December 31, 2023.

19. ADVANCE PAYMENTS RECEIVED AND OTHER PAYABLES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Payables for acquisition of property, plant and equipment	51,247	67,093
Payables for research and development activities	32,416	2,424
Accrued salaries and other allowances	4,070	3,885
Payables for intangible assets	904	–
Other tax payables	222	107
Accrued listing expenses	–	7,521
Accrued share issue costs for IPO	–	3,638
Others	324	46
	<u>89,183</u>	<u>84,714</u>
Advance payments received and other payables denominated in:		
RMB	87,685	74,819
US\$	496	9,895
HK\$	98	–
GBP	904	–
	<u>89,183</u>	<u>84,714</u>

20. LEASE LIABILITIES

Luzhu Biologics (Beijing) Co. Limited* (綠竹生物製品(北京)有限公司) (“Beijing Luzhu”) leases a property from April 2022 to April 2025 for research and development. The lease liabilities amounting to RMB3,488,000 was recognized at the present value of the lease payments that are not yet paid, using the incremental borrowing rate of 4.50% per annum. The rental deposit paid at initial recognition is RMB318,000, of which the adjustment to fair value amounted to RMB39,000 is considered as additional lease payments and included in the cost of right-of-use assets. On December 2, 2022, Beijing Luzhu entered into a supplementary agreement with the lessor to terminate the lease. Beijing Luzhu derecognized the right-of-use assets of RMB2,782,000 and lease liabilities of RMB2,990,000, resulting in a gain of RMB239,000 recognized in profit or loss after consideration of refund of rental deposits.

The Company leases a property from October 2023 to October 2026 for research and development. The lease liabilities amounting to RMB377,000 was recognized at the present value of the lease payments that are not yet paid, using the incremental borrowing rate of 3.50% per annum.

The exposure of the Group's lease liabilities are as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Lease liabilities payable:		
Within one year	129	–
More than one year, but not exceeding two years	124	–
More than two years, but not exceeding five years	6,927	4,449
More than five years	5,036	6,770
	<u>12,216</u>	<u>11,219</u>
Less: Amount due for settlement within 12 months shown under current liabilities	<u>129</u>	–
Amount due for settlement after 12 months shown under non-current liabilities	<u>12,087</u>	<u>11,219</u>

The incremental borrowing rates applied by the relevant group entities range from 3.50% to 6.05% (December 31, 2022: 3.70% to 6.05%) per annum for lease liabilities as at December 31, 2023.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

21. DEFERRED GOVERNMENT GRANTS

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Current	–	9,400
Non-current	37,667	27,371
	<u>37,667</u>	<u>36,771</u>

Movements of deferred government grants

	Deferred government grants related to Research and development			
	Plant and machinery <i>RMB'000</i>	Right-of-use assets <i>RMB'000</i>	activities <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2022	18,023	12,478	16,800	47,301
Government grants received	–	–	1,000	1,000
Release of deferred government grants to profit or loss	(195)	(2,935)	(8,400)	(11,530)
At December 31, 2022	17,828	9,543	9,400	36,771
Government grants received	6,000	–	–	6,000
Release of deferred government grants to profit or loss	(2,235)	(2,869)	–	(5,104)
At December 31, 2023	21,593	6,674	9,400	37,667

Government grants include subsidies from local PRC governments which are specifically for (i) compensations of the capital expenditure incurred for purchase of plant and machinery and right-of-use assets, which are recognized over the useful life of the related assets and (ii) the research and development activities, which are recognized upon compliance with the attached conditions.

22. BANK BORROWING

The Group obtained a new bank borrowing of RMB10,000,000 in March 2023 and partially repaid RMB3,000,000 in September 2023, the remaining balances will mature in March 2024. The borrowing carries interest at 2.35% per annum and guaranteed by one of the controlling shareholders of the Company, Mr. Kong Jian.

23. FINANCIAL LIABILITIES AT FVTPL

During year 2019 and 2022, the Company entered into several series of financing agreements with external investors, and these investors made investments in the Company as consideration for subscription of ordinary shares with preference rights of the Company (“**Preference Shares**”). Before the entering of series C financing agreement (“**Series C Financing**”), the investors had the preference rights including the liquidation preferences, anti-dilution right and redemption right so that the Group designated the Preference Shares which contain redemption features and other embedded derivatives as financial liabilities at FVTPL on initial recognition. The fair value change of Preference Shares is recognized to profit or loss except for the portion attributable to credit risk change which shall be recognized to other comprehensive income, if any. The Directors considered that the credit risk change on the financial liabilities that drive the fair value change of the financial liabilities during the year ended December 31, 2022 is immaterial.

According to the Series C Financing entered into in 2022, no redemption obligation was undertaken by the Group, and the preference rights including the liquidation preferences and anti-dilution right shall terminate upon the Company’s submission of the listing application.

The movements in the financial liabilities at FVTPL are as follows:

	Financial liabilities at FVTPL RMB'000
At January 1, 2022	1,237,517
Addition	338,000
Change in fair value	551,546
Reclassification (<i>Note</i>)	<u>(2,127,063)</u>
At December 31, 2022	<u><u>–</u></u>

Note: Upon the Company's submission of the listing application in June 2022, the Preference Shares meet the definition of equity as the Group has no contractual obligation to deliver cash or a variable number of shares. Therefore, the Preference Shares were reclassified from financial liabilities to equity at their fair value, resulting in an increase of share capital of RMB92,481,000 and an increase of share premium of RMB2,034,582,000.

24. SHARE CAPITAL

	Number of shares '000	Share capital RMB'000
Issued and fully paid		
As at January 1, 2022	90,888	90,888
Exercise of Directors Options	8,695	8,695
Reclassification from financial liabilities at FVTPL (<i>Note 23</i>)	<u>92,481</u>	<u>92,481</u>
At December 31, 2022	192,064	192,064
Issue of shares upon IPO (<i>Note</i>)	<u>10,386</u>	<u>10,386</u>
At December 31, 2023	<u><u>202,450</u></u>	<u><u>202,450</u></u>

Note: On May 8, 2023, 10,386,000 ordinary shares with par value of RMB1 each were issued at HK\$32.80 by way of IPO, resulting in an increase of the share capital of RMB10,386,000. An amount of RMB289,797,000, being the excess of the consideration received of HK\$340,660,800 (equivalent to approximately RMB300,183,000) over the par value of the ordinary shares of RMB10,386,000, was credited to share premium and share issue cost of RMB41,255,000 was debited to the share premium.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Company is a biotechnology company committed to developing innovative human vaccines and therapeutic biologics to prevent and control infectious diseases and treat cancer and autoimmune diseases.

Since its inception in 2001, the Group has focused on human medicine and has established technology platforms with its understanding of immunology and protein engineering, which empowers the Group to develop the recombinant vaccine and antibody product candidates with favorable efficiency, high purity and improved stability.

As of December 31, 2023, the Group's product pipeline consisted of three clinical-stage product candidates, including its Core Product, LZ901, and four pre-clinical stage product candidates. In such connection, having considered the market conditions and growth potential and prospect of the pre-clinical stage product candidates, the Group has decided to suspend the development of its recombinant rabies vaccine and reallocate the resources to the research and development of recombinant Respiratory Syncytial Virus (RSV) vaccine, a new pipeline product of the Group for the treatment of lower respiratory tract disease which is currently in the pre-clinical stage.

As of December 31, 2023, the Group had three invention patents in the PRC, Russia and Japan and six pending applications relating to its Core Product. All of the registered patents and patent applications for the Core Product are related to the same set of patent claims filed to nine different jurisdictions to protect its intellectual property, given that in addition to China and the U.S., the other jurisdictions are also the target markets or potential markets in the future for LZ901.

The H Shares of the Company were listed on the Stock Exchange on May 8, 2023. The aggregate net proceeds received by the Company from the global offering of its H Shares (the "**Global Offering**"), after deducting underwriting commissions and other expenses payable by the Company in connection with the Global Offering, amounted to approximately HK\$241.6 million.

BUSINESS REVIEW

Research and development of product candidates

After two decades of research and development and introduction of technologies, the Group has established an innovative precision protein engineering platform empowering the full cycle of drug development, which provides a solid foundation for the development of the Group's human vaccines candidates, monoclonal antibody product candidates and bispecific antibody product candidates.

The Group's innovative antigen presentation technology for vaccine development starts from the concept of enhancing the immunogenicity of a target antigen, then streamlines the design of a recombinant virus vaccine antigen while retaining the primary structure of the natural antigen to enhance immunogenicity, improve safety and patient vaccination experience. The Group has an internally developed next-generation bispecific antibody development platform, Fabite[®], of which the Group owns intellectual property rights, has competitive advantages in the development of bispecific antibody products for the treatment of relapsed/refractory hematological malignancies. Fabite[®] has a fully controllable mechanism of action and mode of administration to ensure the safety of patients. It can be used in a variety of immunotherapies based on the activation of T cells to kill cancer cells. Fabite[®] optimizes the purification process of bispecific antibodies, achieving high purity of monomers. At the same time, the Group has developed several types of liquid formulations to address stability issues, resulting in bispecific antibody solutions that can be stable for more than three years in storage conditions of 2-8°C.

By employing the Fabite[®] technology platform and mammalian expression technology platform and leveraging its in-house biologics manufacturing infrastructure and capabilities, the Group established a diversified and advanced product pipeline covering human vaccine candidates, monoclonal antibody product candidates and bispecific antibody product candidates.

Product candidates at clinical trial stage

LZ901

LZ901, the independently developed recombinant herpes zoster vaccine candidate and Core Product of the Group, has a tetrameric molecular structure to prevent shingles caused by varicella-zoster virus (“VZV”). Its molecular structure has doubled the Fc regions for antigen presenting cells (“APCs”) to bind to compared to naturally occurring VZV antigen. LZ901 actively presents VZV antigens to immune cells to trigger an immune response. In addition, LZ901 has demonstrated high immunogenicity, efficacy and safety profile in both the preclinical studies and the Phase I clinical trial in China, while inducing specific humoral and cellular immunity.

The Group has completed the Phase II clinical trial for LZ901 in China in May 2023. The results were statistically and clinically meaningful, and demonstrated a favorable profile. In terms of immunogenicity studies, the geometric mean concentration (“GMC”), geometric mean titer (“GMT”) and the positive conversion rate of antibody in the high-dose LZ901 group were significantly higher than those in the low-dose cohorts. On the other hand, the GMC, GMT and the positive conversion rate of antibody in the high-dose and low-dose LZ901 group were significantly higher than those in the placebo group. In terms of safety studies, adverse events (“AEs”) in the trial mainly occurred within 0-7 days, and the incidence rate of Grade I, Grade II and Grade III AEs of the trial vaccines were approximately 23.74%, 6.02% and 1.00%, respectively. The high-dose cohorts, lowdose cohorts and placebo group reported incidence rate of AEs of approximately 29.0%, 23.0% and 13.0%, respectively. No Grade IV AEs and no serious AEs had been observed during the Phase II clinical trial of LZ901 in China.

Riding on the Phase II clinical trial data which provide definitive basis for the Phase III clinical trial, the Group initiated the multi-center, randomized, double-blind, placebo-controlled Phase III clinical trial for LZ901 in China in September 2023, and expects to file Biologics License Application (“BLA”) in the fourth quarter of 2024 for LZ901 to the NMPA, and achieve commercialization in the fourth quarter of 2025. The subjects enrolled in the Phase I and Phase II clinical trial for LZ901 in China were aged 50 years and older, and the Group has expanded the subject enrollment for the Phase III clinical trial for LZ901 in China to adults aged 40 years and older, which has been completed in January 2024. A total of 26,000 healthy subjects aged 40 years and older were enrolled across four provinces including Jiangsu, Shandong, Hubei and Shanxi. In addition, the Group has received IND approval from the FDA in July 2022 for LZ901. The Group initiated a Phase I clinical trial for LZ901 in the U.S. in February 2023 and completed its subject enrollment in July 2023. The Group plans to complete the Phase I clinical trial for LZ901 in the U.S. in the second quarter of 2024.

K3

K3, the independently developed recombinant human anti-tumor necrosis factor (“TNF”)- α monoclonal antibody injection product candidate of the Group, is a biosimilar of Humira[®] (adalimumab) and mainly used for the treatment of various autoimmune diseases, such as rheumatoid arthritis, ankylosing spondylitis and plaque psoriasis. The Group has initiated the Phase I clinical trial in China in September 2018, in which K3 displayed pharmacokinetics consistent with adalimumab, and completed the Phase I clinical trial in December 2019. The Group plans to initiate a Phase III clinical trial for K3 in China in the second half of 2024, complete the Phase III clinical trial in 2025. The Group expects K3 to achieve commercialization in 2026, thereby expanding the market in China for adalimumab biosimilars.

K193

K193 is an independently developed bispecific antibody injection (B-lymphocyte antigen CD19 (“CD19”) – cluster of differentiation 3 (“CD3”)) product candidate of the Group for the treatment of B cell leukemia and lymphoma. K193 is the world’s first bispecific antibody against CD19/CD3 with an asymmetric structure. K193 has an innovative molecular structure that was developed based on the internally developed bispecific antibody development platform of the Group, Fabite[®], and the Group’s mammalian expression technology platform, which makes it less prone to polymerization and decreased activity compared to other similar products in the market. During pre-clinical studies, K193 displayed high *in vivo* and *in vitro* anti-tumor activity, and its optimized formulation is stable and convenient to use. K193’s unique mechanism of action endows it with a strong ability to treat various types of B cell leukemia and lymphoma. The safe and controllable administration of K193 also reduces the impact of patient stress caused by medication administration. In December 2019, the Group initiated a Phase I clinical trial of K193 in China and expects to complete the Phase I clinical trial in the second half of 2024.

Updates on other pre-clinical product candidates

During the Reporting Period, having considered the market conditions and growth potential and prospect of its pre-clinical-stage product candidates, the Group has decided to suspend the development of its recombinant rabies vaccine and reallocate the resources to the research and development of recombinant RSV vaccine, a new pipeline product for the treatment of lower respiratory tract disease which is currently in the pre-clinical-stage. Accordingly, the Group had a total of four pre-clinical stage product candidates as of December 31, 2023, namely, recombinant varicella vaccine, recombinant RSV vaccine, K333 bispecific antibody for the treatment of myeloid leukemia and K1932 bispecific antibody for the treatment of lymphoma.

The following diagram summarizes the status of the product pipeline of the Group as of December 31, 2023:

Product Type	Product Pipeline	Indications	Pre-clinical	Clinical Trials		
				Phase I	Phase II	Phase III
Recombinant Vaccine	LZ901 ⁽¹⁾	Herpes zoster	China			
		Herpes zoster	US			
Monoclonal Antibody	K3 ⁽²⁾	Ankylosing spondylitis, rheumatoid arthritis, plaque psoriasis	China			
Bispecific Antibody	K193	r/r B-cell lymphoma/leukemia	China			
Recombinant Vaccine	Recombinant Varicella Vaccine	Varicella	China			
Bispecific Antibody	K333	Myeloid leukemia	China			
Bispecific Antibody	K1932	r/r B-cell lymphoma	China			
Recombinant Vaccine	Recombinant RSV Vaccine ⁽³⁾	Lower respiratory tract disease caused by RSV	China			

Notes:

- (1) Core Product.
- (2) K3 is a biosimilar of adalimumab and therefore, is not required to conduct a Phase II clinical trial.
- (3) Recombinant RSV Vaccine is a new product candidate of the Group.

For further details of the product candidates of the Group, please refer to the Prospectus.

THE COMPANY MAY NOT BE ABLE TO SUCCESSFULLY DEVELOP AND/OR MARKET THE CORE PRODUCT, OR ANY OTHER PRODUCT CANDIDATES.

Research and development

The in-house R&D team of the Group is involved in all stages of novel vaccine and biologic therapeutic candidates development, from pre-clinical studies, laboratory research to clinical trials, regulatory filing and manufacturing process development, and the Group has thereby established a full range of in-house product discovery capabilities, including recombinant protein design and optimization, amplification, cultivation and harvesting. With its R&D capabilities, the Group now possesses a diversified and advanced product pipeline covering human vaccine candidates, monoclonal antibody product candidates and bispecific antibody product candidates.

Manufacturing and quality assurance

The Group has R&D and manufacturing facilities in both Beijing and Zhuhai, and the Group plans to expand the scale of its R&D and manufacturing facilities as it further develops its business in future. The Group provides training to its manufacturing team to ensure that each team member possesses the skills sets and techniques required in the relevant product process, and comply with the quality control requirements, as well as applicable laws and regulations. As of December 31, 2023, the manufacturing team of the Group consisted of 28 personnel.

The Group also has a quality management system designed to adhere to national standards, including the GMP standards, covering substantially every aspect of the operations including product design, raw materials and manufacturing, among others. As of December 31, 2023, the Group had an experienced quality management team consisting of 28 personnel, all of whom had received professional training in regulations, GMP standards and quality control analysis methods.

FUTURE AND OUTLOOK

The Group plans to implement the following strategies to achieve the goals and visions of the Group:

- actively promote the clinical development of the Group's pipeline candidates including LZ901, K3 and K193;
- rapidly advance the development of the other pre-clinical product candidates of the Group;
- expand the production capacity of the Group to meet growing market demand;
- lay out strategic plans to promote commercialization in China and abroad; and
- expand the product pipeline of the Group through independent development and/or collaboration.

FINANCIAL REVIEW

The following discussion is based on and should be read in conjunction with the financial information and accompanying notes included elsewhere in this announcement.

Other income

Other income of the Group increased by approximately 44.3% from approximately RMB13.9 million as at December 31, 2022 to approximately RMB20.1 million as at December 31, 2023, which was primarily due to the increase in interest income on bank balances of approximately RMB5.8 million resulting from the increase in bank deposits of the Group.

Set out below are the components of other income for the periods indicated:

	For the year ended December 31,	
	2023 RMB'000	2022 RMB'000
Income from sales of immunoreagent testing kits	1,802	2,056
Government grants related to		
• Right-of-use assets and plant and machinery	5,104	3,130
• Research and development activities	–	8,400
• IPO success subsidy	7,000	–
• Others	170	88
Interest income on bank balances	5,991	223
Interest income from rental deposits	18	26
Total	20,085	13,923

Other expenses

Other expenses of the Group decreased by approximately 80.8% from approximately RMB3.1 million for the year ended December 31, 2022 to approximately RMB0.6 million for the year ended December 31, 2023. Such decrease was primarily attributable to the issue costs for financial liabilities at FVPTL of approximately RMB2.5 million incurred for the year ended December 31, 2022 as a result of the issue of Shares pursuant to the series B+ financing of the Group completed in January 2022, whereas no such costs were recorded for the year ended December 31, 2023.

Set out below are the components of other expenses for the periods indicated:

	For the year ended December 31,	
	2023 RMB'000	2022 RMB'000
Cost of immunoreagent testing kits sold	603	590
Issue costs for financial liabilities at FVTPL	0	2,547
Total	603	3,137

Other gains and losses, net

Net other gains of the Group increased by approximately 20.3% from gains of RMB15.1 million for the year ended December 31, 2022 to gains of RMB18.2 million for the year ended December 31, 2023, which was primarily due to the increase in net foreign exchange gains of approximately RMB5.7 million, partially offset by a decrease in fair value gains on financial assets at FVTPL of approximately RMB2.5 million.

Set out below are the components of net other gains for the periods indicated:

	For the year ended December 31,	
	2023 RMB'000	2022 RMB'000
Fair value gains on financial assets at FVTPL	11,377	13,868
Gain (loss) on disposal of property, plant and equipment	56	(3)
Foreign exchange gains, net	6,734	996
Gain on early termination of a lease	—	239
Total	18,167	15,100

Fair value loss of financial liabilities at FVTPL

Fair value loss of financial liabilities at FVTPL of the Group decreased from approximately RMB551.5 million for the year ended December 31, 2022 to nil for the year ended December 31, 2023, as the Shares issued to pre-IPO investors of the Company had been reclassified from financial liabilities to equity at their fair value in June 2022.

Administrative expenses

Administrative expenses of the Group increased by approximately 1.4% from approximately RMB85.8 million for the year ended December 31, 2022 to approximately RMB87.0 million for the year ended December 31, 2023, which was primarily due to the increase in staff costs, depreciation and other expenses, partially offset by a decrease in amortized share based payments of approximately RMB11.7 million.

Research and development expenses

Research and development expenses of the Group increased by approximately 88.9% from approximately RMB91.4 million for the year ended December 31, 2022 to approximately RMB172.7 million for the year ended December 31, 2023, which was primarily due to the commencement of phase III clinical trial for LZ901 in China.

Finance costs

Finance costs of the Group increased by approximately 16.9% from approximately RMB0.7 million for the year ended December 31, 2022 to approximately RMB0.8 million for the year ended December 31, 2023, which was primarily due to the increase in bank borrowings of the Group.

Listing expenses

Listing expenses of the Group increased by approximately 22.8% from approximately RMB21.5 million for the year ended December 31, 2022 to approximately RMB26.5 million for the year ended December 31, 2023 in line with the progress of the Listing and it is expected that no such expenses will be incurred in the future.

Loss before tax

For the above reasons, the loss before tax of the Group decreased by approximately 65.6% from approximately RMB725.2 million for the year ended December 31, 2022 to approximately RMB249.4 million for the year ended December 31, 2023.

Income tax expenses

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's subsidiary in Hong Kong, which was subject to Hong Kong profit tax during the year ended December 31, 2023.

Under the law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and implementation regulations of the EIT Law, the basic tax rate of the Company and the PRC subsidiaries of the Group is 25%. As the Group was loss-making for the year ended December 31, 2022 and the year ended December 31, 2023, no income tax expenses were incurred.

Non-IFRSs Measure: Adjusted loss for the period

To supplement the unaudited consolidated interim results of the Group, which are prepared and presented in accordance with IFRSs, the Company uses additional financial measure which is not required by or presented in accordance with IFRSs, namely, adjusted loss for the period. The Group's adjusted loss for the period is not calculated in accordance with IFRSs, and it is a non-IFRSs measure. The Company believes that the adjusted loss for the period is useful for investors in comparing the Group's performance, and it allows investors to consider metrics used by the management of the Group in evaluating the Group's performance. Adjusted loss for the period represents the loss for the period excluding the effect of items that are non-recurring, noncash and/or non-operating in nature and not indicative of the actual operating performance of the Group. The following table reconciles the loss and total comprehensive expenses under IFRSs to adjusted loss for the periods indicated:

	For the year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Non-IFRSs measure:		
Loss and total comprehensive expenses for the period	(249,350)	(725,180)
Add:		
Fair value loss of financial liabilities at FVTPL	–	551,546
Listing expenses	26,459	21,542
	<u>(222,891)</u>	<u>(152,092)</u>
Adjusted loss for the period	(222,891)	(152,092)

The adjusted loss for the period increased by approximately 46.6% from approximately RMB152.1 million for the year ended December 31, 2022 to approximately RMB222.9 million for the year ended December 31, 2023. Such increase was primarily attributable to the increase in research and expenses resulting from the commencement of phase III clinical trial for LZ901 in China.

The use of non-IFRSs measure has limitations as an analytical tool, and Shareholders and potential investors of the Company should not consider it in isolation from, or as a substitute for or superior to analysis of, the Group's results of operations or financial condition as reported under IFRSs. In addition, the non-IFRSs measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measure presented by other companies.

Liquidity, capital resources and structure

The bank balances and cash increased by approximately RMB196.0 million from approximately RMB69.0 million as of December 31, 2022 to approximately RMB265.0 million as of December 31, 2023, which was primarily due to the net proceeds from the Global Offering.

As of December 31, 2023, the Group has bank borrowings or loans of approximately RMB7.0 million which carries interest at 2.35% per annum and will mature in one year. Such bank borrowings or loans were all denominated in RMB.

There had been no breach of loan agreement by the Group during the year ended December 31, 2023.

Pledge of Assets

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

Contingent Liabilities

As of December 31, 2023, the Group did not have any material contingent liabilities.

Gearing Ratio

The gearing ratio is calculated using the Group's total liabilities divided by its total assets. As of December 31, 2023, the Group's gearing ratio was 12.5% (December 31, 2022: 12.4%).

Capital Expenditure

The Group regularly incurs capital expenditures to expand and enhance its research and development facilities, establish manufacturing capacities and increase operating efficiency. The capital expenditures of the Group during the year ended December 31, 2023 primarily consisted of expenditures on construction in progress and leasehold lands. The Group's capital commitments increased from approximately RMB13.5 million as of December 31, 2022 to approximately RMB49.8 million as of December 31, 2023. The increase was primarily attributable to the development project of a new R&D and manufacturing facility of the Group, which commenced construction in September 2023.

Foreign Exchange

Foreign currency risk refers to the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect their financial condition and results of operation. The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong dollars. The conversion of foreign currencies into RMB, including Hong Kong dollars, has been based on rates set by the People's Bank of China. The Group seeks to limit the exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. During the year ended December 31, 2023, the Group did not enter into any currency hedging transactions.

Significant Investments, Material Acquisitions and Disposals

On August 30, 2023, Luzhu Biologics (Beijing) Co., Limited, a wholly-owned subsidiary of the Group, entered into a construction contract with Hebei Construction Group Corporation Limited (“**Hebei Construction**”), pursuant to which Hebei Construction undertook to provide construction services for the development project of a new R&D and manufacturing facility with total gross floor area of approximately 45,072.87 sq.m. locating in the Southern New District of the Beijing Economic and Technological Development Zone, Beijing, the PRC. Such transaction constituted a discloseable transaction of the Group. For more details, please refer to the announcement of the Company dated August 30, 2023.

Save as the above, the Group did not have any significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures for the year ended December 31, 2023.

Future Plans for Material Investments or Capital Assets

As of December 31, 2023, the Group had no concrete plans for material capital expenditure, investments or capital assets. The Company will make further announcement(s) in accordance with the Listing Rules, where applicable, if any investments and acquisition opportunities materialize.

OTHER INFORMATION

Use of Net Proceeds from the Global Offering

The H Shares of the Company were listed on the Stock Exchange on May 8, 2023. The aggregate net proceeds received by the Company from the Global Offering after deducting underwriting commissions and other expenses payable by the Company in connection with the Global Offering, amounted to approximately HK\$241.6 million. In such connection, the over-allotment option as described in the Prospectus had not been exercised. For details of the Global Offering, please refer to the Prospectus, the allotment results announcement of the Company dated May 5, 2023 and the announcement of the Company dated May 28, 2023 in relation to, among others, lapse of the over-allotment option.

The net proceeds from the Global Offering have been and will be used in accordance with the purposes as set out in the Prospectus. The following table sets forth the use of the net proceeds from the Global Offering as of December 31, 2023:

Use of Proceeds	Allocation of the net proceeds from the Global Offering (HKD million)	Percentage of total net proceeds (%)	Unutilized amount as of the date of Listing (HKD million)	Utilized amount during the year ended December 31, 2023 (HKD million)	Unutilized amount as of December 31, 2023 ⁽¹⁾ (HKD million)	Expected timeline of full utilization of the remaining proceeds from the Global Offering as of December 31, 2023 ⁽²⁾
For clinical development, manufacturing and commercialization of the Core Product, LZ901.	140.7	58.2	140.7	32.8	107.9	By the end of 2026
To fund ongoing planned clinical trials in China and the U.S. for LZ901	97.0	40.2	97.0	32.8	64.2	By the end of 2026
To fund commercial manufacturing of LZ901 in 2024 or after	14.6	6.0	14.6	0	14.6	By the end of 2026
To fund marketing and sales activities	29.1	12.0	29.1	0	29.1	By the end of 2026
For clinical development and manufacturing of K3.	53.4	22.1	53.4	0	53.4	By the end of 2026
To fund planned clinical trials for K3 between 2023 and 2024	38.8	16.1	38.8	0	38.8	By the end of 2024
To fund commercial manufacturing of K3 in 2024 or after	14.6	6.0	14.6	0	14.6	By the end of 2026
For construction of the second-phase commercial manufacturing facility in Zhuhai.	38.8	16.1	38.8	17.8	21.0	By the end of 2026
For working capital and other general corporate purposes.	8.7	3.6	8.7	0	8.7	By the end of 2026
Total	241.6	100.0	241.6	50.6	191.0	

Note: As of December 31, 2023, the unused net proceeds were deposited with licensed bank(s) in Hong Kong or the PRC.

The Company expects that the net proceeds from the Global Offering will be used up by 2026.

Employee and Remuneration Policy

As of December 31, 2023, the Group employed 133 full-time employees. The following table sets forth the number of the full-time employees of the Group by function as of December 31, 2023.

The following table sets forth the number of our employees for each function as of December 31, 2023:

Function	Number of Employees	Percentage (%)
Management and General Administrative (including Financial Department)	35	26.3
Research and Development (including Manufacturing Department and Quality Management Department)	72	54.2
Medical Affairs and Clinical Operations	10	7.5
Engineering	16	12.0
Total	133	100.0

The Group has designed an evaluation system to assess the performance of its employees periodically. Such system forms the basis of the Group's determinations of whether an employee should receive a salary raise, bonus, or promotion. The Group believes the salaries and bonuses the employees receive are competitive with market rates.

The Group places strong emphasis on providing training to its employees in order to enhance their technical and product knowledge. The Group designs and offers different training programmes for its employees in various positions. The Group makes contributions to the social insurance and housing provident fund for all of its employees in the PRC.

Funding and Treasury Policy

The Group adopts a stable, conservative approach in its finance and treasury policy, aiming to maintain an optimal financial position, the most economic finance costs, and minimal financial risks. Cash and cash equivalents are normally placed at financial institutions that the Group considers the credit risk to be low. The Group regularly reviews its funding requirements to maintain adequate financial resources in order to support its business operations as well as its research and development, future investments and expansion plans.

Employee Incentive Scheme

The Company adopted an employee incentive scheme (“**Employee Incentive Scheme**”) on December 15, 2021 prior to the Listing. The Employee Incentive Scheme does not involve the grant of new Shares, nor options to subscribe for new Shares. Instead, eligible participants, being employees and consultants of the Group, are granted interests in Hengqin Luzhu LP, the Group's employee incentive platform. All interests under the Employee Incentive Scheme had been granted prior to the Listing. Please refer to “B. Further Information about the business of our Company – 3. Employee Incentive Scheme” in Appendix VII to the Prospectus for a summary of the principal terms of the Employee Incentive Scheme.

Compliance with corporate governance code

The Group is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, and the Directors recognize the importance of good corporate governance. The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Part 2 of Appendix C1 (previously known as Appendix 14) to the Listing Rules and the Company has adopted the Corporate Governance Code as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date.

Pursuant to code provision C.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive should be segregated and should not be performed by the same individual. Mr. KONG currently serves as both the chairman of the Board and the general manager of the Company. While this will constitute a deviation from Code Provision C.2.1 of the CG Code, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that (i) the Board comprises three independent non-executive Directors, and the Directors believe there is sufficient check and balance in the Board to protect the interests of the Group and the Shareholders; (ii) Mr. KONG is a Controlling Shareholder, the Directors are of the view that vesting both roles on him helps to maintain the continuity of the policies and the stability of the operations of the Company. The Board will continue to review the effectiveness of the corporate governance structure of the Group from time to time in order to assess whether separation of the roles of chairman and general manager is necessary.

Save as disclosed above, the Company has complied with all applicable code provisions of the CG Code since the Listing Date and up to December 31, 2023. The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

Compliance with the model code for securities transactions

The Company has adopted the Model Code as set out in Appendix C3 (previously known as Appendix 10) to the Listing Rules to regulate all dealings by Directors, Supervisors and relevant employees in securities of the Company and other matters covered by the Model Code.

Specific enquiry has been made to each Director and Supervisor, and all Directors and Supervisors have confirmed that they have complied with the applicable standards set out in the Model Code since the Listing Date and up to December 31, 2023. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company since the Listing Date and up to December 31, 2023.

EVENTS AFTER THE REPORTING PERIOD

On January 31, 2024, the Company completed the Full Circulation and an aggregate of 59,729,926 Unlisted Shares were converted to H Shares. Among the 59,729,926 converted H Shares, (i) 1,434,783 Converted H Shares owned by Beijing Xinyin Xinghong Equity Investment Partnership (Limited Partnership) (北京信銀興弘股權投資合夥企業(有限合夥)) are subject to a statutory restriction on transfer for a period of one year from the Listing Date as disclosed in the Prospectus (“**Statutory Lock-up**”); and (ii) on top of the pre-existing Statutory Lockup, 58,294,513 Converted H Shares owned by Mr. KONG, one of the Controlling Shareholders, are subject to a voluntary non-disposal undertaking of Mr. KONG for a period of two years from the date of completion of the Full Circulation. For further details of the share capital structure of the Company immediately after the completion of the Full Circulation, please refer to the announcement of the Company dated January 31, 2024.

On February 5, 2024, the Group pledged a property with gross floor area of approximately 21,185 square meters (m²) to secure its bank facility in the principal amount of RMB200.0 million. Such pledged property is intended to be used by the Group as offices, laboratories and manufacturing facility.

Save as disclosed above, there was no important event affecting the Group which occurred after December 31, 2023 up to the date of this announcement.

Audit Committee

The Audit Committee has reviewed the consolidated financial statements and this annual results announcement of the Group for the year ended December 31, 2023, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2023 as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on March 15, 2024. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended December 31, 2023 (for the year ended December 31, 2022: nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the members' eligibility to attend and vote at the AGM, the Company's register of members will be closed from Thursday, June 6, 2024 to Wednesday, June 12, 2024, both dates inclusive, during which period no transfer of share will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of Share shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, June 5, 2024.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.luzhubiotech.com/>). The annual report of the Company for the year ended December 31, 2023 containing all the information required by the Listing Rules will be despatched to the Shareholders (if requested) and published on the aforementioned websites of the Stock Exchange and the Company in due course in accordance with the Articles of Association, the Listing Rules and applicable laws and regulations.

DEFINITIONS

In this announcement, the following expressions shall have the meaning set out below unless the context requires otherwise:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix C1 (previously known as Appendix 14) to the Listing Rules
“China”, “Mainland China” or “the PRC”	the People's Republic of China, excluding, for the purpose of this announcement, Hong Kong, Macau Special Administration Region and Taiwan
“Company”, “the Company”, or “Luzhu Biotechnology”	Beijing Luzhu Biotechnology Co., Ltd. (北京綠竹生物技術股份有限公司), a joint stock company established in the PRC with limited liability on July 19, 2013, the H Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2480)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and, in the context of this announcement to Mr. KONG, Ms. ZHANG and Hengqin Luzhu LP

“Core Product”	has the meaning ascribed to it in Chapter 18A of the Listing Rules and in this context, the Core Product refers to LZ901
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“FDA”	U.S. Food and Drug Administration, the U.S. federal agency responsible for regulating food and drugs
“Full Circulation”	the conversion of the Unlisted into H Shares and their listing on the Stock Exchange
“GMP”	good manufacturing practice, and in the context of PRC laws and regulations, refers to guidelines and regulations from time to time issued pursuant to the PRC Drug Administration Law (中華人民共和國藥品管理法) as part of quality assurance which aims to minimise the risks of contamination, cross contamination, confusion, and errors during the manufacture process of pharmaceutical products and to ensure that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled in conformity to quality and standards appropriate for their intended use
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each and listed on the Main Board of the Stock Exchange
“Hengqin Luzhu LP”	Zhuhai Hengqin Luzhu Enterprise Management Partnership (LP) (珠海橫琴綠竹企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on January 14, 2021, and an employee incentive platform of the Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IND”	investigational new drug or investigational new drug application, also known as clinical trial application in China
“K3”	the anti-human tumor necrosis factor (“TNF”)- α monoclonal antibody injection product candidate
“Listing” or “IPO”	the listing of the H Shares on the Main Board of the Stock Exchange on May 8, 2023

“Listing Date”	May 8, 2023, being the date on which the H Shares were listed on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“LZ901”	the recombinant herpes zoster vaccine candidate, a herpes zoster vaccine with a tetrameric molecular structure and the Core Product
“Main Board”	the Main Board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 (previously known as Appendix 10) to the Listing Rules
“Mr. KONG”	Mr. KONG Jian (孔健), the executive Director, general manager, chairman of the Board, one of the promoters and one of the Controlling Shareholders
“Ms. JIANG”	Ms. JIANG Xianmin (蔣先敏), the executive Director, the vice-chairlady of the Board and one of the promoters
“Ms. ZHANG”	Ms. ZHANG Yanping (張琰平), the executive Director, one of the promoters and one of the Controlling Shareholders
“NMPA”	the National Medical Products Administration of the People’s Republic of China
“Prospectus”	the prospectus issued by the Company dated April 25, 2023
“R&D”	research and development
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of China
“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) in the capital of the Company with a nominal value of RMB1.00 each, comprising Unlisted Shares and H Shares
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Supervisor(s)”	member(s) of the Board of Supervisors
“Unlisted Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi and are unlisted Shares not currently listed or traded on any stock exchange
“%”	percent

In this announcement, capitalized terms used shall have the same meanings as those defined in the Prospectus, and the terms “associate”, “close associate”, “connected person”, “core connected person”, “connected transaction”, “subsidiaries” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

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

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this document in both the Chinese and English languages; in the event of any inconsistency, the Chinese versions shall prevail.

By order of the Board
Beijing Luzhu Biotechnology Co., Ltd.
Mr. KONG Jian
Chairman and Executive Director

Hong Kong, March 15, 2024

As of the date of this announcement, the Board comprises Mr. KONG Jian, Ms. JIANG Xianmin and Ms. ZHANG Yanping as executive Directors; Mr. MA Biao and Mr. KONG Shuangquan as non-executive Directors; and Mr. LEUNG Wai Yip, Mr. LIANG Yeshe and Ms. HOU Aijun as independent non-executive Directors.