

TYK MEDICINES, INC
(Incorporated in Chinese Mainland with limited liability)

Audited Financial Statements
For the years ended 31 December 2022 and 2023 and three months ended 31 March 2024

TYK MEDICINES, INC

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Independent auditor's report
To the directors of TYK Medicines, Inc
(Incorporated in Chinese Mainland with limited liability)

Opinion

We have audited the consolidated financial statements of TYK Medicines, Inc (the “Company”) and its subsidiaries (the “Group”) set out on pages 4 to 92, which comprise the consolidated and the company statements of financial position as at 31 December 2022 and 2023 and 31 March 2024, and the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the years ended 31 December 2022 and 2023 and the three months ended 31 March 2024 (the “Relevant Periods”), and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2022 and 2023 and 31 March 2024, and of the Group’s consolidated financial performance and its consolidated cash flows for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 respectively to the consolidated financial statements.

Basis for opinion

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

Other matter

Without modifying our opinion, we draw attention to the fact that the financial information for the three months ended 31 March 2023 (the “Interim Comparative Information”) is unaudited.



Independent auditor's report (continued)
To the directors of TYK Medicines, Inc
(Incorporated in Chinese Mainland with limited liability)

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements, which also include the Interim Comparative Information, that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



Independent auditor's report (continued)
To the directors of TYK Medicines, Inc
(Incorporated in Chinese Mainland with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Restriction on distribution and use

These consolidated financial statements are prepared for the purpose of preparation of financial information for inclusion in the prospectus of the Company in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited and accordingly may not be suitable for another purpose.

Our report is intended solely for the information and use by the directors of the Company and should not be distributed to or used by parties other than the Company.

A handwritten signature in black ink, appearing to read 'Ernst & Young', written in a cursive style.

Certified Public Accountants
Hong Kong
12 August 2024

TYK MEDICINES, INC

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Years ended 31 December 2022 and 2023 and three months ended 31 March 2023 and 2024

| | Notes | Year ended 31 December | | Three months ended 31 March | |
|---|-------|---------------------------|------------------|---------------------------------------|------------------|
| | | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 <i>(unaudited)</i> | 2024 RMB'000 |
| REVENUE | 5 | 44,242 | - | - | - |
| Cost of sales | | <u>(24,199)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Gross profit | | 20,043 | - | - | - |
| Other income and gains | 6 | 16,223 | 25,428 | 3,009 | 4,740 |
| Research and development costs | | (229,809) | (249,252) | (54,980) | (64,699) |
| Administrative expenses | | (33,539) | (59,306) | (10,194) | (21,659) |
| Other expenses and losses | 7 | (102) | (15) | (5) | (70) |
| Finance costs | 9 | (15,506) | (22,236) | (2,137) | (2,361) |
| Change in fair value of redemption liabilities on equity shares | 22 | <u>(69,112)</u> | <u>(77,790)</u> | <u>(18,907)</u> | <u>(23,729)</u> |
| LOSS BEFORE TAX | 8 | (311,802) | (383,171) | (83,214) | (107,778) |
| Income tax expense | 12 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| LOSS FOR THE YEAR/PERIOD | | <u>(311,802)</u> | <u>(383,171)</u> | <u>(83,214)</u> | <u>(107,778)</u> |
| Attributable to: | | | | | |
| Owners of the Company | | (310,993) | (382,427) | (83,007) | (107,521) |
| Non-controlling interests | | <u>(809)</u> | <u>(744)</u> | <u>(207)</u> | <u>(257)</u> |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD | | <u>(311,802)</u> | <u>(383,171)</u> | <u>(83,214)</u> | <u>(107,778)</u> |

TYK MEDICINES, INC

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Years ended 31 December 2022 and 2023 and three months ended 31 March 2023 and 2024

| | Notes | Year ended 31 December | | Three months ended 31 March | |
|----------------------------|-------|---------------------------|-----------------|---------------------------------------|-----------------|
| | | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 <i>(unaudited)</i> | 2024 RMB'000 |
| Attributable to: | | | | | |
| Owners of the Company | | (310,993) | (382,427) | (83,007) | (107,521) |
| Non-controlling interests | | <u>(809)</u> | <u>(744)</u> | <u>(207)</u> | <u>(257)</u> |
| LOSS PER SHARE | | | | | |
| ATTRIBUTABLE TO | | | | | |
| ORDINARY EQUITY HOLDERS | | | | | |
| OF THE | | | | | |
| COMPANY (expressed in RMB) | | | | | |
| Basic and diluted | 14 | <u>(1.12)</u> | <u>(1.32)</u> | <u>(0.29)</u> | <u>(0.34)</u> |

TYK MEDICINES, INC

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

31 December 2022 and 2023 and 31 March 2024

| | Notes | As at 31 December | | As at 31 March |
|--|-------|-------------------|--------------------|--------------------|
| | | 2022 | 2023 | 2024 |
| | | RMB'000 | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | | | | |
| Restricted bank deposit | | 4,672 | 4,683 | 4,686 |
| Property, plant and equipment | 15 | 82,648 | 157,510 | 158,447 |
| Right-of-use assets | 16 | 107,548 | 92,335 | 88,404 |
| Intangible assets | 17 | 73,730 | 68,071 | 66,657 |
| Prepayments and other receivables | 18 | 15,033 | 16,830 | 24,215 |
| Total non-current assets | | <u>283,631</u> | <u>339,429</u> | <u>342,409</u> |
| CURRENT ASSETS | | | | |
| Prepayments and other receivables | 18 | 30,073 | 40,387 | 48,089 |
| Financial assets at fair value through profit and loss ("FVTPL") | 19 | 152,727 | 6,001 | 75,287 |
| Restricted bank deposit | | 1,168 | 491 | - |
| Cash and cash equivalents | 20 | 90,762 | 186,830 | 137,208 |
| Total current assets | | <u>274,730</u> | <u>233,709</u> | <u>260,584</u> |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | 21 | 56,214 | 133,429 | 100,140 |
| Redemption liabilities on equity shares | 22 | 882,534 | 1,145,324 | 1,169,053 |
| Interest-bearing bank and other borrowings | 23 | - | - | 80,488 |
| Lease liabilities | 16 | 23,492 | 22,226 | 22,626 |
| Total current liabilities | | <u>962,240</u> | <u>1,300,979</u> | <u>1,372,307</u> |
| NET CURRENT LIABILITIES | | <u>(687,510)</u> | <u>(1,067,270)</u> | <u>(1,111,723)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>(403,879)</u> | <u>(727,841)</u> | <u>(769,314)</u> |
| NON-CURRENT LIABILITIES | | | | |
| Deferred income | 24 | 24,828 | 48,281 | 53,149 |
| Other long-term payables | 25 | 39,584 | 84,408 | 93,933 |
| Lease liabilities | 16 | 32,458 | 19,503 | 18,277 |
| Total non-current liabilities | | <u>96,870</u> | <u>152,192</u> | <u>165,359</u> |
| Net liabilities | | <u>(500,749)</u> | <u>(880,033)</u> | <u>(934,673)</u> |

TYK MEDICINES, INC

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

31 December 2022 and 2023 and 31 March 2024

| | Notes | As at 31 December | | As at 31 March |
|---|-------|-------------------|------------------|------------------|
| | | 2022 | 2023 | 2024 |
| | | RMB'000 | RMB'000 | RMB'000 |
| DEFICIENCY IN EQUITY | | | | |
| Equity attributable to owners of the Company | | | | |
| Share capital | 26 | 287,989 | 307,356 | 322,956 |
| Reserves | 27 | (793,929) | (1,191,836) | (1,261,819) |
| Controlling interests | | (505,940) | (884,480) | (938,863) |
| Non-controlling interests | | 5,191 | 4,447 | 4,190 |
| Total deficits | | (500,749) | (880,033) | (934,673) |

.....
 Wu Yusheng
 Director



TYK MEDICINES, INC

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2022

| | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total deficits RMB'000 |
|---|-----------------------------|-----------------------------|------------------------------|----------------------------------|------------------|---|---------------------------|
| At 1 January 2022 | 247,302 | 318,398 | (444,970) | (315,677) | (194,947) | 6,000 | (188,947) |
| Issue of new shares (notes 26 and 27) | 40,687 | 284,313 | - | - | 325,000 | - | 325,000 |
| Recognition of redemption liabilities on Series C Shares (note 22) | - | - | (325,000) | - | (325,000) | - | (325,000) |
| Total comprehensive loss for the year | - | - | - | (310,993) | (310,993) | (809) | (311,802) |
| At 31 December 2022 | <u>287,989</u> | <u>602,711</u> | <u>(769,970)</u> | <u>(626,670)</u> | <u>(505,940)</u> | <u>5,191</u> | <u>(500,749)</u> |

Year ended 31 December 2023

| | Share capital RMB'000 | Share premium RMB'000 | Share- based payment reserve RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non- controlling interests RMB'000 | Total deficits RMB'000 |
|---|-----------------------------|-----------------------------|--|------------------------------|----------------------------------|------------------|---|---------------------------|
| At 1 January 2023 | 287,989 | 602,711 | - | (769,970) | (626,670) | (505,940) | 5,191 | (500,749) |
| Issue of new shares (notes 26 and 27) | 19,367 | 165,633 | - | - | - | 185,000 | - | 185,000 |
| Recognition of redemption liabilities on Series D Shares (note 22) | - | - | - | (185,000) | - | (185,000) | - | (185,000) |
| Share-based payment compensation (note 28) | - | - | 3,887 | - | - | 3,887 | - | 3,887 |
| Total comprehensive loss for the year | - | - | - | - | (382,427) | (382,427) | (744) | (383,171) |
| At 31 December 2023 | <u>307,356</u> | <u>768,344</u> | <u>3,887</u> | <u>(954,970)</u> | <u>(1,009,097)</u> | <u>(884,480)</u> | <u>4,447</u> | <u>(880,033)</u> |

TYK MEDICINES, INC

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

Three months ended 31 March 2023 (*unaudited*)

| | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total deficits RMB'000 |
|---|-----------------------------|-----------------------------|------------------------------|----------------------------------|------------------|---|---------------------------|
| At 1 January 2023 | 287,989 | 602,711 | (769,970) | (626,670) | (505,940) | 5,191 | (500,749) |
| Total comprehensive loss for the period | - | - | - | (83,007) | (83,007) | (207) | (83,214) |
| As at 31 March 2023 | <u>287,989</u> | <u>602,711</u> | <u>(769,970)</u> | <u>(709,677)</u> | <u>(588,947)</u> | <u>4,984</u> | <u>(583,963)</u> |

Three months ended 31 March 2024

| | Share capital RMB'000 | Share premium RMB'000 | Share- based payment reserve RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | Total RMB'000 | Non- controlling interests RMB'000 | Total deficits RMB'000 |
|---|-----------------------------|-----------------------------|--|------------------------------|----------------------------------|------------------|---|---------------------------|
| At 1 January 2024 | 307,356 | 768,344 | 3,887 | (954,970) | (1,009,097) | (884,480) | 4,447 | (880,033) |
| Issue of new shares (notes 26 and 27) | 15,600 | 34,400 | - | - | - | 50,000 | - | 50,000 |
| Share-based payment compensation (note 28) | - | - | 3,138 | - | - | 3,138 | - | 3,138 |
| Total comprehensive loss for the period | - | - | - | - | (107,521) | (107,521) | (257) | (107,778) |
| As at 31 March 2024 | <u>322,956</u> | <u>802,744</u> | <u>7,025</u> | <u>(954,970)</u> | <u>(1,116,618)</u> | <u>(938,863)</u> | <u>4,190</u> | <u>(934,673)</u> |

TYK MEDICINES, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended 31 December 2022 and 2023 and three months ended 31 March 2023 and 2024

| | Notes | Year ended 31 December | | Three months ended 31 March | |
|---|-------|---------------------------|------------------|--------------------------------|------------------|
| | | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 | 2024 RMB'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Loss before tax | | (311,802) | (383,171) | (83,214) | (107,778) |
| Adjustments for: | | | | | |
| Investment income on financial assets at FVTPL | 6 | (5,348) | (3,025) | (1,568) | (12) |
| Finance costs | 9 | 13,344 | 15,866 | 694 | 575 |
| Listing expenses | 8 | - | 8,004 | - | 7,689 |
| Foreign exchange gains, net | | - | (7) | - | - |
| Charge of share-based payment compensation expenses | 8 | - | 3,887 | - | 3,138 |
| Depreciation of property, plant and equipment | 8 | 5,337 | 7,798 | 1,651 | 2,314 |
| Depreciation of right-of-use assets | 8 | 5,332 | 14,185 | 3,657 | 3,598 |
| Amortisation of intangible assets | 8 | 5,660 | 5,659 | 1,415 | 1,414 |
| Fair value (gain)/loss on financial assets at FVTPL | 6 | (341) | 726 | 353 | (286) |
| Fair value loss on redemption liabilities on equity shares | 22 | 69,112 | 77,790 | 18,907 | 23,729 |
| Loss on disposal of items of property, plant and equipment | 7 | 37 | 10 | - | - |
| Gain on termination of a lease contract | 6 | - | (8) | - | (2) |
| Government grants related to interest-free financing | 6 | (1,890) | (6,075) | (1,373) | (1,709) |
| Interest expenses of government funding | 9 | 2,162 | 6,370 | 1,443 | 1,786 |
| Increase in trade and other receivables | | (19,597) | (11,270) | (10,701) | (6,848) |
| Decrease in contract cost | | 22,831 | - | - | - |
| (Decrease)/ increase in trade and other payables | | (4,890) | 62,317 | 11,750 | (11,526) |
| Net cash flows used in operating activities | | <u>(220,053)</u> | <u>(200,944)</u> | <u>(56,986)</u> | <u>(83,918)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchases of items of property, plant and equipment | | (58,967) | (76,378) | (31,264) | (18,066) |
| Purchases of financial assets at FVTPL | | (1,238,000) | (609,000) | (284,000) | (75,000) |
| Disposal of financial assets at FVTPL | | 1,173,847 | 758,025 | 336,568 | 6,012 |
| Prepayment for acquisition of a land use right | | (29,207) | (876) | (876) | - |
| Payments for restricted bank deposits | | (5,840) | - | - | - |
| Retrieval of restricted bank deposits | | - | 1,170 | - | - |
| Purchase of time deposits | | - | - | - | (60,000) |
| Proceeds from disposal of property, plant and equipment | | 2 | 67 | - | 4,760 |
| Net cash flows from/ (used in) investing activities | | <u>(158,165)</u> | <u>73,008</u> | <u>20,428</u> | <u>(142,294)</u> |

TYK MEDICINES, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended 31 December 2022 and 2023 and three months ended 31 March 2023 and 2024

| | Notes | Year ended 31 December | | Three months ended 31 March | |
|---|-------|---------------------------|-----------------|--------------------------------|-----------------|
| | | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 | 2024 RMB'000 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issue of shares | | 325,000 | 185,000 | - | 50,000 |
| Payment of issue cost of redemption liabilities on equity shares | | (12,250) | - | - | (13,508) |
| Payment of listing expenses | | - | (9,527) | - | (11,190) |
| Financing from non-controlling shareholder of a subsidiary | | 40,000 | 65,000 | 65,000 | 12,000 |
| New bank loans | | - | - | - | 80,400 |
| Interest paid | | - | - | - | (73) |
| Lease payments, including related interest | | (1,611) | (16,476) | (7,459) | (1,039) |
| Net cash flows from financing activities | | <u>351,139</u> | <u>223,997</u> | <u>57,541</u> | <u>116,590</u> |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | | | | |
| Cash and cash equivalents at beginning of year/period | | 117,841 | 90,762 | 90,762 | 186,830 |
| Effect of foreign exchange rate changes, net | | - | 7 | - | - |
| CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD | 20 | <u>90,762</u> | <u>186,830</u> | <u>111,745</u> | <u>77,208</u> |
| Cash and cash equivalents as stated in the statement of financial position | | 90,762 | 186,830 | 111,745 | 137,208 |
| Time deposits with original maturity of more than three months | | - | - | - | (60,000) |
| CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS | | <u>90,762</u> | <u>186,830</u> | <u>111,745</u> | <u>77,208</u> |

TYK MEDICINES, INC

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

31 December 2022 and 2023 and 31 March 2024

| | Notes | As at 31 December | | As at 31 March |
|--|-------|-------------------|--------------------|--------------------|
| | | 2022 | 2023 | 2024 |
| | | RMB'000 | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 15 | 11,234 | 23,808 | 17,290 |
| Right-of-use assets | 16 | 34,721 | 25,986 | 23,842 |
| Intangible assets | 17 | 73,730 | 68,071 | 66,657 |
| Prepayments and other receivables | 18 | 7,620 | 7,352 | 13,758 |
| Investments in subsidiaries | 1 | 184,000 | 199,000 | 199,000 |
| Total non-current assets | | <u>311,305</u> | <u>324,217</u> | <u>320,547</u> |
| CURRENT ASSETS | | | | |
| Prepayments and other receivables | 18 | 29,122 | 38,774 | 46,609 |
| Amount due from subsidiaries | | 2,000 | 7,617 | 8,988 |
| Financial assets at FVTPL | 19 | 132,686 | - | 55,283 |
| Cash and cash equivalents | 20 | 34,039 | 139,748 | 113,593 |
| Total current assets | | <u>197,847</u> | <u>186,139</u> | <u>224,473</u> |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | 21 | 27,736 | 96,186 | 69,817 |
| Redemption liabilities on equity shares | 22 | 882,534 | 1,145,324 | 1,169,053 |
| Interest-bearing bank and other borrowings | 23 | - | - | 80,488 |
| Lease liabilities | 16 | 13,496 | 14,463 | 14,619 |
| Total current liabilities | | <u>923,766</u> | <u>1,255,973</u> | <u>1,333,977</u> |
| NET CURRENT LIABILITIES | | <u>(725,919)</u> | <u>(1,069,834)</u> | <u>(1,109,504)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>(414,614)</u> | <u>(745,617)</u> | <u>(788,957)</u> |
| NON-CURRENT LIABILITIES | | | | |
| Deferred income | 24 | - | 2,982 | 5,298 |
| Lease liabilities | 16 | 23,243 | 14,499 | 13,603 |
| Total non-current liabilities | | <u>23,243</u> | <u>17,481</u> | <u>18,901</u> |
| Net liabilities | | <u>(437,857)</u> | <u>(763,098)</u> | <u>(807,858)</u> |
| DEFICIENCY IN EQUITY | | | | |
| Share capital | 26 | 287,989 | 307,356 | 322,956 |
| Reserves | 27 | (725,846) | (1,070,454) | (1,130,814) |
| Total deficits | | <u>(437,857)</u> | <u>(763,098)</u> | <u>(807,858)</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

1. CORPORATE AND GROUP INFORMATION

TYK Medicines, Inc (the “Company”) was incorporated in Chinese Mainland on 2 November 2017. The registered office address of the Company is Room 1403-2, 14th Floor, Tower A, Changxing World Trade Building, No.1278 Mingzhu Road, Changxing Economic Development Zone, Huzhou, Zhejiang Province, the PRC.

The Company is a drug discovery Research & Development centre. The Company and its subsidiaries (the “Group”) are principally engaged in the research, development and commercialisation of pharmaceutical products.

As at the date of this report, the Company had direct interests in its subsidiaries, all of which are private limited liability companies, the particulars of which are as follows:

| Name | Place and date of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|--|--|----------|-----------------------------|
| | | | Direct | Indirect | |
| TYK Medicines (Shanghai) Co., Ltd. *(上海同源康醫藥有限公司) (Note a) | People’s Republic of China (“PRC”)/Chinese Mainland, 25 May 2020 | RMB100,000,000 | 100% | - | Administrative headquarters |
| TYK Medicines (Zhengzhou) Co., Ltd.* (鄭州同源康醫藥有限公司) (Note a) | PRC/Chinese Mainland, 28 October 2020 | RMB45,000,000 | 100% | - | Research and development |
| Kangyuan Pharmaceuticals (Changxing) Co., Ltd. *(長興康源製藥有限公司) (Note a) (“Changxing KY”) | PRC/Chinese Mainland, 25 March 2021 | RMB20,000,000 | 70% | - | Research and development |
| Yabao Biotechnology (Shanghai) Co., Ltd. *(上海雅葆生物科技有限公司) (Note b) (Note 34) | PRC/Chinese Mainland, 22 November 2021 | RMB40,000,000 | 100% | - | Research and development |
| TYK Medicines USA, Inc | United States of America (“USA”) 16 May 2023 | USD1,000,000 | 100% | - | Research and development |

*These entities are limited liability enterprises established under the PRC law. The English names of these companies represent the best effort made by the directors of the Company (the “Directors”), as none of them have been registered with official English names.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

1. CORPORATE AND GROUP INFORMATION (continued)

Note:

- a. The statutory financial statements of the company for the year ended 31 December 2022 prepared in accordance with PRC Generally Accepted Accounting Principles were audited by Shenzhen Ju Yuan Li De Certified Public Accountants LLP. The statutory financial statements of the company for the year ended 31 December 2023 prepared in accordance with PRC Generally Accepted Accounting Principles were audited by Zhejiang Zhejing Tiance Certified Public Accountants Co., Ltd.
- b. The statutory financial statements of the company for the year ended 31 December 2022 prepared in accordance with PRC Generally Accepted Accounting Principles were audited by Shenzhen Ju Yuan Li De Certified Public Accountants LLP. No audited financial statements have been prepared for the entity for the year ended 31 December 2023 as this entity was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation

The investments in subsidiaries in the Company's statements of financial position represent:

| | As at 31 December 2022 RMB'000 | 2023 RMB'000 | As at 31 March 2024 RMB'000 |
|-------------------------------|--------------------------------------|-----------------|-----------------------------------|
| Unlisted investments, at cost | <u>184,000</u> | <u>199,000</u> | <u>199,000</u> |

2. ACCOUNTING POLICIES

2.1 BASIS OF PRESENTATION

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods and the unaudited financial information of the Group for the three months ended 31 March 2023 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2022 and 2023 and 31 March 2024 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholders' perspective.

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

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.2 BASIS OF PRESENTATION

The financial statements are prepared for the purpose of preparation of financial information for inclusion in the prospectus of the Company in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. They have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2024, together with the relevant transitional provisions, have been early adopted by the Group throughout the Relevant Periods and the period covered by the Interim Comparative Information.

These financial statements have been prepared under the historical cost convention, except for Redemption liabilities on equity shares and wealth management products which have been measured at fair value. They are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The Group has previously prepared financial statements under Accounting Standards for Business Enterprises (“PRC GAAP”) issued by the Ministry of Finance of the People's Republic of China. These financial statements are the first set of financial statements of the Group prepared in accordance with HKFRS. Accordingly, HKFRS 1 (Revised) “First-time adoption of International Financial Reporting Standards” has been applied in preparing these financial statements and the transition date is 1 January 2022. Details of the first-time adoption of HKFRSs are disclosed in Note 2.3 below.

The Group incurred losses continually during the Relevant Periods due to the pre-revenue stage of its new drug research and development businesses. The Group recorded net liabilities of RMB934,673,000 and net current liabilities of RMB1,111,723,000 as at 31 March 2024, primarily due to the significant amount of the redemption liabilities on equity shares of RMB1,169,053,000 arising from the financing with redemption feature from Pre-IPO investors. The redemption feature has ceased to be effective from the date before the date of the first submission of the first listing application form for the Listing and shall be reinstated in the event where (i) the Company withdraws its application for the public offering, (ii) the Stock Exchange, the SFC or any competent securities regulatory authority has decided not to approve or to reject the listing application of our Company or otherwise terminate the listing application review procedure, or (iii) the Company fails to complete the public offering within 14 months from the date of submission of the application to the Stock Exchange. Further, redemption liabilities on equity shares will be derecognized from liabilities as a result of the termination of all special rights upon the Listing. Based on the latest application status, the directors of the Company are of the opinion that the Company is expected to complete the public offering successfully within 14 months from the application and therefore the redemption feature will unlikely be restored in the twelve months from 31 March 2024.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.2 BASIS OF PREPARATION (continued)

The directors of the Company further assessed whether the Group have sufficient working capital to meet its present obligations, taking into account the financial resources available to the Group, including cash and cash equivalents on hand and the estimated net proceeds from the Listing. The Company has prudently prepared a full-speed budget based for pivotal Phase II/Phase III clinical trials of its core products and other early-stage pipelines for 2024 assuming the Company is able to raise proceeds from the Listing as well as a backbone budget plan to advance all necessary R&D activities for its core products assuming the Company is unable to raise proceeds from the Listing. Based on the rigorous review of the budget under either full-speed or backbone scenario, the directors of the Company are satisfied that the Group would have sufficient working capital to meet its present obligations, taking into account the financial resources available to the Group for next twelve months from 31 March 2024.

Accordingly, the directors of the Company concluded that it is appropriate to prepare the financial statements on a going concern basis.

2.3 FIRST-TIME ADOPTION OF HKFRSs

In preparing these consolidated financial statements, the Group's opening statement of financial position was prepared as at 1 January 2022, being the date of transition to HKFRSs.

Reconciliation of equity

As at 1 January 2022 (date of transition to HKFRSs) and 31 December 2022 (the end of the latest period of the most recent annual financial statements under PRC GAAP), there were no reclassifications or remeasurements to equity arising from the transition from PRC GAAP to HKFRSs.

Reconciliation of total comprehensive income

During the year ended 31 December 2022 (the latest period of the most recent annual financial statements under PRC GAAP), there were no reclassifications or remeasurements to total comprehensive income arising from the transition from PRC GAAP to HKFRSs.

Reconciliation of cash flows

The transition of PRC GAAP to HKFRSs did not have any material adjustments to the cash flows.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

| | |
|---------------------------------------|---|
| HKFRS 18 | <i>Presentation and Disclosure in Financial Statements</i> ³ |
| HKFRS 19 | <i>Subsidiaries without Public Accountability: Disclosure</i> ³ |
| Amendments to HKFRS 9 and HKFRS 7 | <i>Amendments to the Classification and Measurement of Financial Instruments</i> ² |
| Amendments to HKFRS 10 and HKAS 28 | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴ |
| Amendments to HKAS 21 | <i>Lack of Exchangeability</i> ¹ |

¹ Effective for annual periods beginning on or after 1 January 2025.

² Effective for annual periods beginning on or after 1 January 2026.

³ Effective for annual periods beginning on or after 1 January 2027.

⁴ No mandatory effective date yet determined but available for adoption.

The Group is in the process of making an assessment of the impact of these revised HKFRSs upon initial application. So far, the Group considers that these revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

- Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for a non-financial asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Related parties (continued)

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|-------------------------|---|
| Furniture and equipment | 20% to 33% |
| Leasehold improvements | Shorter of remaining lease terms and estimated useful lives |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of the reporting periods.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are amortised on the straight-line basis over the following estimated useful lives:

| | |
|-----------------------|----------------|
| Intellectual property | 13 to 20 years |
|-----------------------|----------------|

Intellectual property is recognised as intangible assets at historical cost and amortised using the straight-line method over its estimated useful life of 13 to 20 years, which is determined by reference to the authorised useful life and the management's estimation. The estimation is made considering the protection period of the Intellectual property. It is subsequently carried at cost less accumulated amortisation and impairment losses.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Leases

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|-----------------|----------------|
| Office premises | 2 to 5 years |
| Land use right | 20 to 50 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate used to determine such lease payments) or a change in assessment of an option to purchase the underlying asset.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

The Group's lease liabilities are presented in a separate line on the consolidated statements of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs.

- Stage 1 - Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.
- Stage 2 - Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.
- Stage 3 - Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings and other long-term payables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost

After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial liabilities measured at FVTPL

Financial liabilities measured at FVTPL include redemption liabilities on equity shares.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (continued)

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary difference; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary difference; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Government grants (continued)

Where the Group receives government loans granted with no or at a below-market rate of interest, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the profit or loss over the period of the loan.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Collaboration revenue

At contract inception, the Group analyses the collaboration arrangements to assess whether they are within the scope of HKFRS 11 *Joint Arrangements* to determine whether such arrangements involve joint operating activities performed by parties that are both active participants in the activities and are exposed to significant risks and rewards dependent on the commercial success of such activities.

In determining the appropriate amount of revenue to be recognised as the Group fulfils its obligations under each of the collaboration agreements, the management of the Company perform the five-step model under HKFRS 15. The collaboration arrangements may contain more than one unit of account or performance obligation, including grants of licenses to intellectual property rights (the “Licenses”), agreements to provide research and development services and other deliverables. The collaborative arrangements typically do not include a right of return for any deliverable. In general, the consideration allocated to each performance obligation is recognised when the obligation is satisfied either by delivering a good or rendering a service, limited to the consideration that is not constrained. Non-refundable payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as contract liabilities.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Licenses of intellectual property

Upfront non-refundable payments for Licenses are evaluated to determine if they are distinct from the other performance obligations identified in the arrangements. For the Licenses determined to be distinct, the Group recognises revenues from non-refundable up-front fees allocated to the licenses at a point in time, when the Licenses are transferred to the licensee and the licensee is able to use and benefit from the Licenses.

Research and development services

The portion of the transaction price allocated to research and development service performance obligations is deferred and recognised as collaboration revenue at the point in time when the research and development services are rendered to customers.

Milestone payments

At the inception of each arrangement that includes development milestone payments, the management of the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestones related to development-based activities may include initiation of various phases of clinical trials. Due to the uncertainty involved in meeting these development-based targets, they are generally fully constrained at contract inception. The management of the Company will assess whether the variable consideration is fully constrained for each reporting period based on the facts and circumstances surrounding the clinical trials. Upon changes to constraint associated with the developmental milestones, variable consideration will be included in the transaction price when a significant reversal of revenue recognised is not expected to occur and allocated to the separate performance obligations. Due to the inherent uncertainty with the approval process, regulatory milestones are fully constrained until the period in which those regulatory approvals are achieved. Regulatory milestones are included in the transaction price in the period regulatory approval is obtained.

Royalties

For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the Licenses that are deemed to be the predominant items to which the royalties relate, the Group recognises revenue at the later of (i) when the related sales occur, and (ii) when the performance obligation to which some or all of the royalties have been allocated is satisfied (or partially satisfied).

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Other income

Bank interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

The Group operates a restricted share scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments (“equity-settled transactions”). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of restricted shares unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Other employee benefits

Pension scheme

The employees of the Group which operates in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Chinese Mainland are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Housing fund - Chinese Mainland

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting periods and their statements of profit or loss and other comprehensive income are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

2.5 MATERIAL ACCOUNTING POLICIES (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the reporting periods are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- (a) Identifying performance obligation under contracts which have bundled sales of the Licenses and research and development services

The Group have a contract which provides the Licenses together with pre-clinical research and development services to a customer. The Group determined that both the Licenses and research and development services are not distinct. The Group is providing a significant integration service because the presence of the Licenses and research and development services together in the contract result in a combined functionality. In addition, the Licenses and research and development services are highly interdependent or highly interrelated, because the Group would not be able to transfer the Licenses if the research and development services were not completed. Consequently, the Group has combined the sales of the Licenses and research and development services as a single performance obligation.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue from contracts with customers (continued)

(b) Determining the timing of satisfaction of the Licenses and research and development services

For the Licenses which the customer gets a right to use, revenue for the Licenses and research and development services is recognised at the point of time when the control of the Licenses is transferred to the customer and the customer is able to consume and benefit from the Licenses.

The Group's revenue is generated from the collaboration agreement with Livzon Pharmaceutical Group Inc., which generally contains multiple performance obligations including (1) grants of licenses to intellectual property rights and (2) providing research and development services and other deliverables.

Research and development expenses

All research expenses are charged to profit or loss as incurred. Expenses incurred on each pipeline to develop new products are capitalised and deferred in accordance with the accounting policy for research and development expenses in note 2.3 to the financial statements. Determining the amounts to be capitalised requires management to make judgements on the technical feasibility of existing pipelines to be successfully commercialised and bring economic benefits to the Company.

Estimation uncertainty

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

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as a subsidiary's stand-alone credit rating).

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

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment on property, plant and equipment and right-of-use assets (continued)

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

At the end of each reporting period, no indication of impairment for property, plant and equipment and right-of-use assets are identified by the Group.

Fair value of financial instruments

The redemption liabilities on equity shares issued by the Group are not traded in an active market and the respective fair values are calculated as the higher of (i) the original investment principal from investors, plus an annual simple rate of 10% of the original investment principal for a period of time commencing from the delivery date to the actual payments date of the settlement (referred as “P+I”); (ii) the net assets of the Company audited by an accountant firm with experience in securities practice that is selected by the Company and approved by the investors at the time of transfer held by the investors; and (iii) the investment principal plus the increase of the shareholders’ equity of the Company held by the investors in proportion to the shareholding period.

The fair values of redemption liabilities on equity shares of the Group as at 31 December 2022 and 2023 and 31 March 2024 were RMB882,534,000 and RMB1,145,324,000 and RMB1,169,053,000, respectively. Further details are set out in note 33 to the financial statements.

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions and when certain matters relating to the income taxes have not been confirmed by the local tax bureau. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences and unused tax losses. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the losses can be utilised, management’s judgment is required to assess the probability of future taxable profits. Management’s assessment is revised as necessary and deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Performance-based restricted shares

The Group estimates the number of share awards contingently issuable when determining the share-based expenses, which depends on the achievement of certain non-market performance targets of the Group under the Employee Incentive Scheme (as defined in note 28 to the financial statements). This requires an estimation of the performance targets to be achieved by the Group, including completion of public offering. The Group recorded nil and RMB3,887,000 and RMB3,138,000 share-based payment compensation expenses during the year ended 31 December 2022 and 2023 and the three months ended 31 March 2024.

4. OPERATING SEGMENT INFORMATION

Operating segment information

For management purposes, the Group has only one reportable operating segment, which is developing and commercialising pharmaceutical products. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

Since all of the Group's non-current assets were located in Chinese Mainland, no geographical information in accordance with HKFRS 8 *Operating Segments* is presented.

5. REVENUE

An analysis of revenue is as follows:

Revenue from contracts with customers

(a) Disaggregated revenue information

| | Year ended | | Three months ended | |
|--------------------------------------|-------------|---------|--------------------|---------|
| | 31 December | | 31 March | |
| | 2022 | 2023 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Type of services | | | | |
| Collaboration revenue | 44,242 | - | - | - |
| Timing of revenue recognition | | | | |
| Transferred at a point in time | 44,242 | - | - | - |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

5. REVENUE (continued)

(b) Performance obligations

Licensing-out of intellectual property

In August 2020, the Group entered into an exclusive license agreement (the “Livzon Agreement”) with Livzon Pharmaceutical Group Inc. (“Livzon”) to research, develop, improve, manufacture, use, sell, contract and commercialize ROS1/NTRK/ALK multi-target small molecule broad-spectrum tyrosine kinase inhibitor (“TY-2136b”) in Great China. Pursuant to the Livzon Agreement, the Group is entitled to receive upfront payment, milestone payment and royalty payment for licensing and pre-clinical support.

The Group recognised collaboration revenue of RMB44,242,000 related to licensing-out of TY-2136b during the year ended 31 December 2022.

6. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

| | Year ended | | Three months ended | |
|--|-------------|---------|--------------------|---------|
| | 31 December | | 31 March | |
| | 2022 | 2023 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | <i>(unaudited)</i> | |
| <u>Other income</u> | | | | |
| Government grants related to income | 6,621 | 16,245 | 181 | 2,303 |
| Government grants related to interest-free financing | 1,890 | 6,075 | 1,373 | 1,709 |
| Bank interest income | 2,023 | 700 | 240 | 428 |
| <u>Gains</u> | | | | |
| Investment income on financial assets at FVTPL | 5,348 | 3,025 | 1,568 | 12 |
| Gain/(loss) on fair value changes of financial assets at FVTPL | 341 | (726) | (353) | 286 |
| Gain on termination of a lease contract | - | 8 | - | 2 |
| Foreign exchange gains, net | - | 101 | - | - |
| Total | 16,223 | 25,428 | 3,009 | 4,740 |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

7. OTHER EXPENSES AND LOSSES

| | Year ended 31 December | | Three months ended 31 March | |
|---|---------------------------|-----------------|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 <i>(unaudited)</i> | 2024 RMB'000 |
| Loss on disposals of property, plant and equipment | 37 | 10 | - | - |
| Donation to not-for-profit organisations | 50 | 5 | 5 | - |
| Others | 15 | - | - | 70 |
| Total | 102 | 15 | 5 | 70 |

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

| Notes | Year ended 31 December | | Three months ended 31 March | |
|---|---------------------------|-----------------|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 <i>(unaudited)</i> | 2024 RMB'000 |
| Cost of services provided | 24,199 | - | - | - |
| Depreciation of property, plant and equipment* | 15 5,337 | 7,798 | 1,651 | 2,314 |
| Depreciation of right-of-use assets** | 16 5,332 | 14,185 | 3,657 | 3,598 |
| Amortisation of intangible assets*** | 17 5,660 | 5,659 | 1,415 | 1,414 |
| Research and development costs | | | | |
| Current year expenditure | 179,364 | 185,408 | 39,582 | 50,042 |
| Loss on disposal of items of property, plant and equipment | 7 37 | 10 | - | - |
| Expenses relating to short-term leases | 16 1,020 | 923 | 225 | 238 |
| Listing expenses | - | 8,004 | - | 7,689 |
| Staff costs (including directors' emoluments)****: | | | | |
| - Salaries, discretionary bonuses, allowances and benefits in kind | 56,186 | 63,918 | 15,158 | 12,939 |
| - Pension scheme contributions | 2,269 | 3,026 | 701 | 666 |
| - Share-based payment compensation | - | 3,887 | - | 3,138 |
| | 58,455 | 70,831 | 15,859 | 16,743 |

*The depreciation of property, plant and equipment for the Relevant Periods and three months ended 31 March 2023 is included in "Cost of sales", "Research and development costs" and "Administrative expenses" in profit or loss.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

8. LOSS BEFORE TAX (continued)

**The depreciation of right-of-use assets for the Relevant Periods and three months ended 31 March 2023 is included in “Research and development costs” and “Administrative expenses” in profit or loss and “Construction in progress” in the consolidated statement of financial position.

***The amortisation of intellectual property for the Relevant Periods and three months ended 31 March 2023 is included in “Research and development costs” in profit or loss.

****The staff cost for the Relevant Periods and three months ended 31 March 2023 is included in “Cost of sales”, “Research and development costs” and “Administrative expenses” in profit or loss.

9. FINANCE COSTS

| | Year ended 31 December | | Three months ended 31 March | |
|--|---------------------------|-----------------|---|-----------------|
| | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 (<i>unaudited</i>) | 2024 RMB'000 |
| Interest on lease liabilities (note 16) | 1,094 | 2,358 | 694 | 414 |
| Interest expenses of government funding | 2,162 | 6,370 | 1,443 | 1,786 |
| Interest on bank loans | - | - | - | 161 |
| Transaction cost on issue of redemption liabilities on equity shares | 12,250 | 13,508 | - | - |
| Total | <u>15,506</u> | <u>22,236</u> | <u>2,137</u> | <u>2,361</u> |

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors', supervisors' and chief executive's remuneration for the Relevant Periods and three months ended 31 March 2023, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | Year ended 31 December | | Three months ended 31 March | |
|---|---------------------------|-----------------|---|-----------------|
| | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 (<i>unaudited</i>) | 2024 RMB'000 |
| Fees | - | - | - | - |
| Other emoluments: | | | | |
| Salaries, allowances and benefits in kind | 4,506 | 5,878 | 1,454 | 1,206 |
| Pension scheme contributions | 95 | 100 | 26 | 40 |
| Housing funds, medical insurance and other social insurance | 86 | 93 | 23 | 42 |
| Share-based payment compensation | - | 670 | - | 1,140 |
| Total | <u>4,687</u> | <u>6,741</u> | <u>1,503</u> | <u>2,428</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Executive directors, non-executive directors, supervisors and the chief executive

| | Salaries, allowances and benefits in kind RMB'000 | Housing funds, medical insurance and other social insurance RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|--|---|--|--|------------------|
| 2022 | | | | |
| Chief executive and executive director: | | | | |
| Dr. Wu Yusheng (Note (a)) | 2,153 | 4 | 7 | 2,164 |
| Directors: | | | | |
| Dr. Li Jun (Note (b)) | 600 | 4 | 7 | 611 |
| Dr. Gu Eric Hong (Note (e)) | - | - | - | - |
| Dr. Sun Feng (Note (f)) | - | - | - | - |
| Dr. Li Li (Note (g)) | - | - | - | - |
| Dr. Meng Xiaoying (Note (h)) | - | - | - | - |
| Dr. Jiang En (Note (i)) | - | - | - | - |
| Mr. He Chao (Note (j)) | - | - | - | - |
| Supervisors: | | | | |
| Dr. Niu Chengshan (Note (c)) | 1,105 | 13 | 19 | 1,137 |
| Dr. Liang Apeng (Note (d)) | 648 | 65 | 62 | 775 |
| Ms. Shang Jing (Note (k)) | - | - | - | - |
| Dr. Li Jun (Note (l)) | - | - | - | - |
| Dr. Liu Xingyu (Note (m)) | - | - | - | - |
| Total | <u>4,506</u> | <u>86</u> | <u>95</u> | <u>4,687</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Executive directors, non-executive directors, supervisors and the chief executive (continued)

| | Salaries, allowances and benefits in kind RMB'000 | Share-based payment compensation RMB'000 | Housing funds, medical insurance and other social insurance RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 0 |
|---|---|---|--|---|-----------------------|
| 2023 | | | | | |
| Chief executive and executive director: | | | | | |
| Dr. Wu Yusheng (Note (a)) | 2,360 | 510 | 3 | 4 | 2,877 |
| Directors: | | | | | |
| Dr. Li Jun (Note (b)) | 900 | - | 1 | 1 | 902 |
| Dr. Gu Eric Hong (Note (e)) | - | - | - | - | - |
| Dr. Sun Feng (Note (f)) | - | - | - | - | - |
| Dr. Li Li (Note (g)) | - | - | - | - | - |
| Dr. Meng Xiaoying (Note (h)) | - | - | - | - | - |
| Dr. Jiang En (Note (i)) | - | - | - | - | - |
| Mr. He Chao (Note (j)) | - | - | - | - | - |
| Dr Gao Tianhua (Note (n)) | - | - | - | - | - |
| Supervisors: | | | | | |
| Dr. Niu Chengshan (Note (c)) | 1,410 | 58 | 13 | 20 | 1,501 |
| Dr. Liang Apeng (Note (d)) | 1,208 | 102 | 76 | 75 | 1,461 |
| Ms. Shang Jing (Note (k)) | - | - | - | - | - |
| Dr. Li Jun (Note (l)) | - | - | - | - | - |
| Dr. Liu Xingyu (Note (m)) | - | - | - | - | - |
| Total | <u>5,878</u> | <u>670</u> | <u>93</u> | <u>100</u> | <u>6,741</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Executive directors, non-executive directors, supervisors and the chief executive (continued)

| | Salaries, allowances and benefits in kind RMB'000 | Housing funds, medical insurance and other social insurance RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|--|---|---|--|------------------|
| Three months ended 31 March 2023 (unaudited) | | | | |
| Chief executive and executive director: | | | | |
| Dr. Wu Yusheng (Note (a)) | 585 | 1 | 2 | 588 |
| Directors: | | | | |
| Dr. Li Jun (Note (b)) | 225 | 1 | 1 | 227 |
| Dr. Gu Eric Hong (Note (e)) | - | - | - | - |
| Dr. Sun Feng (Note (f)) | - | - | - | - |
| Dr. Li Li (Note (g)) | - | - | - | - |
| Dr. Meng Xiaoying (Note (h)) | - | - | - | - |
| Dr. Jiang En (Note (i)) | - | - | - | - |
| Mr. He Chao (Note (j)) | - | - | - | - |
| Supervisors: | | | | |
| Dr. Niu Chengshan (Note (c)) | 352 | 3 | 5 | 360 |
| Dr. Liang Apeng (Note (d)) | 292 | 18 | 18 | 328 |
| Ms. Shang Jing (Note (k)) | - | - | - | - |
| Dr. Li Jun (Note (l)) | - | - | - | - |
| Dr. Liu Xingyu (Note (m)) | - | - | - | - |
| Total | 1,454 | 23 | 26 | 1,503 |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Executive directors, non-executive directors, supervisors and the chief executive (continued)

| | Salaries, allowances and benefits in kind RMB'000 | Share-based payment compensation RMB'000 | Housing funds, medical insurance and other social insurance RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|--|---|------------------|
| Three months ended 31 March 2024 | | | | | |
| Chief executive and executive director: | | | | | |
| Dr. Wu Yusheng (Note (a)) | 346 | 412 | - | - | 758 |
| Executive Directors: | | | | | |
| Dr. Jiang Mingyu (Note (o)) | 156 | 599 | 19 | 18 | 792 |
| Directors: | | | | | |
| Dr. Sun Feng (Note (f)) | - | - | - | - | - |
| Dr. Li Li (Note (g)) | - | - | - | - | - |
| Dr. Jiang En (Note (i)) | - | - | - | - | - |
| Dr. Gao Tianhua (Note (n)) | - | - | - | - | - |
| Non-executive directors: | | | | | |
| Dr. Li Jun (Note (b)) | 225 | - | - | - | 225 |
| Dr. Gu Eric Hong (Note (e)) | - | - | - | - | - |
| Dr. Meng Xiaoying (Note (h)) | - | - | - | - | - |
| Mr. He Chao (Note (j)) | - | - | - | - | - |
| Dr. Ding Zhao (Note (p)) | - | - | - | - | - |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Executive directors, non-executive directors, supervisors and the chief executive (continued)

| | Salaries, allowances and benefits in kind RMB'000 | Share-based payment compensation RMB'000 | Housing funds, medical insurance and other social insurance RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|--|--|---|--|---|------------------|
| Three months ended 31 March 2024 (continued) | | | | | |
| Independent non- executive director: | | | | | |
| Mr. Zhang Senquan (Note (q)) | 25 | - | - | - | 25 |
| Dr. Leng Yuting (Note (r)) | 25 | - | - | - | 25 |
| Dr. Xu Wenqing (Note (s)) | 25 | - | - | - | 25 |
| Dr. Shen Xiuhua (Note (t)) | 25 | - | - | - | 25 |
| Supervisors: | | | | | |
| Dr. Niu Chengshan (Note (c)) | 231 | 47 | 3 | 3 | 284 |
| Dr. Liang Apeng (Note (d)) | 148 | 82 | 20 | 19 | 269 |
| Ms. Shang Jing (Note (k)) | - | - | - | - | - |
| Dr. Li Jun (Note (l)) | - | - | - | - | - |
| Dr. Liu Xingyu (Note (m)) | - | - | - | - | - |
| Total | 1,206 | 1,140 | 42 | 40 | 2,428 |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Executive directors, non-executive directors, supervisors and the chief executive (continued)

Notes:

- (a) Dr. Wu Yusheng was appointed as an executive director and the chief executive director of the Company with effect from November 2017.
- (b) Dr. Li Jun was appointed as a director with effect from January 2021 and was appointed as a non-executive director with effect from January 2024.
- (c) Dr. Niu Chengshan was appointed as a supervisor with effect from May 2018.
- (d) Dr. Liang Apeng was appointed as a supervisor with effect from November 2017.
- (e) Dr. Gu Eric Hong was appointed as a director with effect from November 2017 and was appointed as a non-executive director with effect from January 2024.
- (f) Dr. Sun Feng was appointed as a director with effect from May 2019 and resigned in January 2024.
- (g) Dr. Li Li was appointed as a director with effect from January 2021 and resigned in January 2024.
- (h) Dr. Meng Xiaoying was appointed as a director with effect from January 2021 and was appointed as a non-executive director with effect from January 2024.
- (i) Dr. Jiang En was appointed as a director with effect from July 2021 and resigned in January 2024.
- (j) Mr. He Chao was appointed as a director with effect from June 2022 and was appointed as a non-executive director with effect from January 2024.
- (k) Ms. Shang Jing was appointed as a supervisor with effect from January 2021.
- (l) Dr. Li Jun was appointed as a supervisor with effect from July 2021 and resigned in January 2024.
- (m) Dr. Liu Xingyu was appointed as a supervisor with effect from July 2021 and resigned in January 2024.
- (n) Dr. Gao Tianhua was appointed as a director with effect from June 2023 and resigned in January 2024.
- (o) Dr. Jiang Mingyu was appointed as an executive director with effect from January 2024.
- (p) Dr. Ding Zhao was appointed as a non-executive director with effect from January 2024.
- (q) Mr. Zhang Senquan was appointed as an independent non-executive director with effect from January 2024.
- (r) Dr. Leng Yuting was appointed as an independent non-executive director with effect from January 2024.
- (s) Dr. Xu Wenqing was appointed as an independent non-executive director with effect from January 2024.
- (t) Dr. Shen Xiuhua was appointed as an independent non-executive director with effect from January 2024.

During the Relevant Periods and three months ended 31 March 2023, restricted shares were granted to two directors and two supervisors in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such restricted shares, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the Relevant Periods and three months ended 31 March 2023 is included in the above executive directors, non-executive directors, supervisors and the chief executive's remuneration disclosures.

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Reporting Period.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

11. FIVE HIGHEST PAID EMPLOYEES

Included in the five highest paid employees during the Relevant Periods and three months ended 31 March 2023 are one, one, one director and two directors, respectively, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining highest paid employees who are neither a director nor chief executive of the Company during the Relevant Periods and three months ended 31 March 2023, respectively, are as follows:

| | Year ended 31 December | | Three months ended 31 March | |
|--|---------------------------|-----------------|--------------------------------|-----------------|
| | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 (unaudited) | 2024 RMB'000 |
| Salaries, allowances and benefits in kind | 7,453 | 8,570 | 2,189 | 1,222 |
| Pension scheme contributions | 51 | 119 | 29 | 14 |
| Housing funds, medical insurance and other social insurance | 56 | 132 | 32 | 19 |
| Share-based payment compensation | - | 2,478 | - | 1,401 |
| Total | 7,560 | 11,299 | 2,250 | 2,656 |

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

| | Year ended 31 December | | Three months ended 31 March | |
|------------------------------|---------------------------|-----------------|--------------------------------|-----------------|
| | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 (unaudited) | 2024 RMB'000 |
| Nil to HKD1,000,000 | - | - | 4 | 2 |
| HKD1,500,001 to HKD2,000,000 | 3 | - | - | 1 |
| HKD2,000,001 to HKD2,500,000 | - | 1 | - | - |
| HKD2,500,001 to HKD3,500,000 | 1 | 1 | - | - |
| HKD3,500,001 to HKD4,000,000 | - | 2 | - | - |

During the Relevant Periods and three months ended 31 March 2023, restricted shares were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such restricted shares, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the Relevant Periods and three months ended 31 March 2023 is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

11. FIVE HIGHEST PAID EMPLOYEES (continued)

During the Relevant Periods and three months ended 31 March 2023, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

12. INCOME TAX

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

Chinese Mainland

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the Enterprise Income Tax (“EIT”) rate of the PRC subsidiaries was 25% during the Relevant Periods and three months ended 31 March 2023 except for the Company which was subject to tax concession set out below.

The Company was accredited as a “High and New Technology Enterprise” (“HNTE”) in 2022. Therefore, the Company was entitled to a preferential EIT rate of 15% for the Relevant Periods and three months ended 31 March 2023. The qualification as a HNTE Enterprise is subject to review by the relevant tax authority in the PRC every three years.

| | Year ended 31 December | | Three months ended 31 March | |
|---|---------------------------|------------------|--------------------------------|------------------|
| | 2022 | 2023 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Loss before tax | <u>(311,802)</u> | <u>(383,171)</u> | <u>(83,214)</u> | <u>(107,778)</u> |
| Tax at the statutory tax rate (15%) | (46,770) | (57,476) | (12,482) | (16,167) |
| Effect of different tax rates enacted by local authorities | (3,840) | (5,413) | (1,028) | (979) |
| Additional deductible allowance for research and development expenses | (27,432) | (40,030) | (8,366) | (10,368) |
| Deductible temporary difference and tax losses not recognised | 77,683 | 102,537 | 21,784 | 27,392 |
| Expenses not deductible for tax | <u>359</u> | <u>382</u> | <u>92</u> | <u>122</u> |
| Tax charge at the Group's effective rate | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences as they have arisen in the subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits in foreseeable future will be available against which the tax losses can be utilised.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

12. INCOME TAX (continued)

According to the EIT Law, an additional 75% of qualified research and development expenses incurred was allowed to be deducted from taxable income effective from 1 January 2022 to 30 September 2022. An additional 100% of qualified research and development expenses incurred is allowed to be deducted from taxable income effective from 1 October 2022.

13. DIVIDENDS

No dividend was paid or declared by the Company during the Relevant Periods and three months ended 31 March 2023.

14. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year/period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 277,817,000, 288,774,000, 287,989,000 and 317,756,000 in issue during the Relevant Periods and three months ended 31 March 2023, respectively.

The Group had no potentially dilutive ordinary shares in issue during the Relevant Periods and three months ended 31 March 2023.

The calculation of basic and loss per share is based on:

| | Year ended 31 December | | Three months ended 31 March | |
|--|---------------------------|---------------|--------------------------------|---------------|
| | 2022 | 2023 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Loss | | | | |
| Loss attributable to ordinary equity holders of the parent | (310,993) | (382,427) | (83,007) | (107,521) |
| Shares | | | | |
| Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation | 277,817,000 | 288,774,000 | 287,989,000 | 317,756,000 |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Express in RMB) | | | | |
| Basic and diluted | <u>(1.12)</u> | <u>(1.32)</u> | <u>(0.29)</u> | <u>(0.34)</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

15. PROPERTY, PLANT AND EQUIPMENT

The Group

| | Furniture and equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---------------------------------------|--------------------------------------|--|------------------|
| 31 December 2022 | | | | |
| At 1 January 2022: | | | | |
| Cost | 11,247 | 5,622 | 5,731 | 22,600 |
| Accumulated depreciation | (2,012) | (893) | - | (2,905) |
| Net carrying amount | <u>9,235</u> | <u>4,729</u> | <u>5,731</u> | <u>19,695</u> |
| At 1 January 2022, net of accumulated depreciation | | | | |
| Additions | 9,235 | 4,729 | 5,731 | 19,695 |
| Disposal | 5,820 | 1,933 | 60,577 | 68,330 |
| Transfer | (40) | - | - | (40) |
| Depreciation provided during the year | - | 1,311 | (1,311) | - |
| At 31 December 2022, net of accumulated depreciation | <u>(3,151)</u> | <u>(2,186)</u> | <u>-</u> | <u>(5,337)</u> |
| At 31 December 2022, net of accumulated depreciation | <u>11,864</u> | <u>5,787</u> | <u>64,997</u> | <u>82,648</u> |
| At 31 December 2022: | | | | |
| Cost | 17,027 | 8,866 | 64,997 | 90,890 |
| Accumulated depreciation | (5,163) | (3,079) | - | (8,242) |
| Net carrying amount | <u>11,864</u> | <u>5,787</u> | <u>64,997</u> | <u>82,648</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group

| | Furniture and equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---------------------------------------|--------------------------------------|--|------------------|
| 31 December 2023 | | | | |
| At 1 January 2023: | | | | |
| Cost | 17,027 | 8,866 | 64,997 | 90,890 |
| Accumulated depreciation | (5,163) | (3,079) | - | (8,242) |
| Net carrying amount | <u>11,864</u> | <u>5,787</u> | <u>64,997</u> | <u>82,648</u> |
| At 1 January 2023, net of accumulated depreciation | | | | |
| Additions | 1,751 | 6,817 | 74,169 | 82,737 |
| Disposal | (10) | (67) | - | (77) |
| Depreciation provided during the year | (3,762) | (4,036) | - | (7,798) |
| At 31 December 2023, net of accumulated depreciation | <u>9,843</u> | <u>8,501</u> | <u>139,166</u> | <u>157,510</u> |
| At 31 December 2023: | | | | |
| Cost | 18,629 | 15,377 | 139,166 | 173,172 |
| Accumulated depreciation | (8,786) | (6,876) | - | (15,662) |
| Net carrying amount | <u>9,843</u> | <u>8,501</u> | <u>139,166</u> | <u>157,510</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group

| | Furniture and equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---------------------------------------|--------------------------------------|--|------------------|
| 31 March 2024 | | | | |
| At 1 January 2024: | | | | |
| Cost | 18,629 | 15,377 | 139,166 | 173,172 |
| Accumulated depreciation | (8,786) | (6,876) | - | (15,662) |
| Net carrying amount | <u>9,843</u> | <u>8,501</u> | <u>139,166</u> | <u>157,510</u> |
| At 1 January 2024, net of accumulated depreciation | 9,843 | 8,501 | 139,166 | 157,510 |
| Additions | 24 | 31 | 7,956 | 8,011 |
| Disposal | - | (4,760) | - | (4,760) |
| Transfer | - | 10,349 | (10,349) | - |
| Depreciation provided during the period | (942) | (1,372) | - | (2,314) |
| At 31 March 2024, net of accumulated depreciation | <u>8,925</u> | <u>12,749</u> | <u>136,773</u> | <u>158,447</u> |
| At 31 March 2024: | | | | |
| Cost | 18,653 | 20,997 | 136,773 | 176,423 |
| Accumulated depreciation | (9,728) | (8,248) | - | (17,976) |
| Net carrying amount | <u>8,925</u> | <u>12,749</u> | <u>136,773</u> | <u>158,447</u> |

As at 31 December 2022 and 2023 and 31 March 2024, there were no pledged property, plant and equipment.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

| | Furniture and equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---------------------------------------|--------------------------------------|--|------------------|
| 31 December 2022 | | | | |
| At 1 January 2022: | | | | |
| Cost | 6,342 | 5,568 | 1,285 | 13,195 |
| Accumulated depreciation | (1,661) | (890) | - | (2,551) |
| Net carrying amount | <u>4,681</u> | <u>4,678</u> | <u>1,285</u> | <u>10,644</u> |
| At 1 January 2022, net of accumulated depreciation | | | | |
| | 4,681 | 4,678 | 1,285 | 10,644 |
| Additions | 2,558 | 1,827 | - | 4,385 |
| Disposal | (40) | - | - | (40) |
| Transfer | - | 1,285 | (1,285) | - |
| Depreciation provided during the year | (1,601) | (2,154) | - | (3,755) |
| At 31 December 2022, net of accumulated depreciation | <u>5,598</u> | <u>5,636</u> | <u>-</u> | <u>11,234</u> |
| At 31 December 2022: | | | | |
| Cost | 8,815 | 8,680 | - | 17,495 |
| Accumulated depreciation | (3,217) | (3,044) | - | (6,261) |
| Net carrying amount | <u>5,598</u> | <u>5,636</u> | <u>-</u> | <u>11,234</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

| | Furniture and equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---------------------------------------|--------------------------------------|--|------------------|
| 31 December 2023 | | | | |
| At 1 January 2023: | | | | |
| Cost | 8,815 | 8,680 | - | 17,495 |
| Accumulated depreciation | (3,217) | (3,044) | - | (6,261) |
| Net carrying amount | <u>5,598</u> | <u>5,636</u> | - | <u>11,234</u> |
| At 1 January 2023, net of accumulated depreciation | | | | |
| Cost | 5,598 | 5,636 | - | 11,234 |
| Additions | 1,459 | 6,805 | 10,349 | 18,613 |
| Disposal | (7) | (67) | - | (74) |
| Depreciation provided during the year | (1,986) | (3,979) | - | (5,965) |
| At 31 December 2023, net of accumulated depreciation | <u>5,064</u> | <u>8,395</u> | <u>10,349</u> | <u>23,808</u> |
| At 31 December 2023: | | | | |
| Cost | 10,178 | 15,179 | 10,349 | 35,706 |
| Accumulated depreciation | (5,114) | (6,784) | - | (11,898) |
| Net carrying amount | <u>5,064</u> | <u>8,395</u> | <u>10,349</u> | <u>23,808</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

| | Furniture and equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---------------------------------------|--------------------------------------|--|------------------|
| 31 March 2024 | | | | |
| At 1 January 2024: | | | | |
| Cost | 10,178 | 15,179 | 10,349 | 35,706 |
| Accumulated depreciation | (5,114) | (6,784) | - | (11,898) |
| | <u>5,064</u> | <u>8,395</u> | <u>10,349</u> | <u>23,808</u> |
| Net carrying amount | | | | |
| At 1 January 2024, net of accumulated depreciation | 5,064 | 8,395 | 10,349 | 23,808 |
| Additions | 24 | 31 | - | 55 |
| Disposal | - | (4,760) | - | (4,760) |
| Transfer | - | 10,349 | (10,349) | - |
| Depreciation provided during the period | (497) | (1,316) | - | (1,813) |
| At 31 March 2024, net of accumulated depreciation | <u>4,591</u> | <u>12,699</u> | <u>-</u> | <u>17,290</u> |
| At 31 March 2024: | | | | |
| Cost | 10,202 | 20,799 | - | 31,001 |
| Accumulated depreciation | (5,611) | (8,100) | - | (13,711) |
| | <u>4,591</u> | <u>12,699</u> | <u>-</u> | <u>17,290</u> |
| Net carrying amount | | | | |

As at 31 December 2022 and 2023 and 31 March 2024, there were no pledged property, plant and equipment.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

16. LEASES

The Group as a lessee

The Group has lease contracts for land use right and various items of office premises used in its operations. Land use right has term for usage of approximately 20 to 50 years and leases of office premises generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amount of the Group's right-of-use assets and the movements during the Relevant Periods are as follows:

| | Land use right RMB'000 | Office premises RMB'000 | Total RMB'000 |
|-------------------------------|------------------------------|-------------------------------|------------------|
| As at 31 December 2022 | | | |
| As at 1 January 2022 | 26,489 | 13,180 | 39,669 |
| Addition | 30,083 | 43,128 | 73,211 |
| Depreciation charge | (659) | (4,673) | (5,332) |
| | <u>55,913</u> | <u>51,635</u> | <u>107,548</u> |
| As at 31 December 2022 | <u>55,913</u> | <u>51,635</u> | <u>107,548</u> |
| As at 31 December 2023 | | | |
| As at 1 January 2023 | 55,913 | 51,635 | 107,548 |
| Depreciation charge | (2,037) | (13,081) | (15,118) |
| Lease termination | - | (95) | (95) |
| | <u>53,876</u> | <u>38,459</u> | <u>92,335</u> |
| As at 31 December 2023 | <u>53,876</u> | <u>38,459</u> | <u>92,335</u> |
| As at 31 March 2024 | | | |
| As at 1 January 2024 | 53,876 | 38,459 | 92,335 |
| Depreciation charge | (509) | (3,223) | (3,732) |
| Lease termination | - | (199) | (199) |
| | <u>53,367</u> | <u>35,037</u> | <u>88,404</u> |
| As at 31 March 2024 | <u>53,367</u> | <u>35,037</u> | <u>88,404</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

16. LEASES (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

| | As at 31 December | | As at 31 March |
|---|-------------------|---------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Carrying amount at 1 January | 14,380 | 55,950 | 41,729 |
| New leases | 43,128 | - | - |
| Accretion of interest recognised during the year/period | 1,094 | 2,358 | 414 |
| Covid-19-related rent concessions | (1,041) | - | - |
| Lease termination | - | (103) | (201) |
| Payments | (1,611) | (16,476) | (1,039) |
| | <u>55,950</u> | <u>41,729</u> | <u>40,903</u> |
| Carrying amount at 31 December and 31 March | <u>55,950</u> | <u>41,729</u> | <u>40,903</u> |
| Analysed into: | | | |
| Current portion | 23,492 | 22,226 | 22,626 |
| Non-current portion | 32,458 | 19,503 | 18,277 |

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

| | As at 31 December | | As at 31 March |
|---|-------------------|---------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Depreciation of right-of-use assets | 5,332 | 14,185 | 3,598 |
| Interest on lease liabilities | 1,094 | 2,358 | 414 |
| Lease termination | - | (8) | (2) |
| Expenses relating to short-term leases | 1,020 | 923 | 238 |
| | <u>7,446</u> | <u>17,458</u> | <u>4,248</u> |
| Total amount recognised in profit or loss | <u>7,446</u> | <u>17,458</u> | <u>4,248</u> |

(d) The total cash outflow for leases is disclosed in note 29(c) to the financial statements.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

16. LEASES (continued)

The Company as a lessee

The Company has lease contracts for various items of office premises used in its operations. Leases of office premises generally have lease terms between 2 and 5 years. Generally, the Company is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amount of the Company's right-of-use assets and the movements during the Relevant Periods are as follows:

| | Office premises RMB'000 |
|-------------------------------|-------------------------------|
| As at 31 December 2022 | |
| As at 1 January 2022 | 8,167 |
| Addition | 30,019 |
| Depreciation charge | (3,465) |
| | <hr/> |
| As at 31 December 2022 | <u>34,721</u> |
| | |
| | Office premises RMB'000 |
| As at 31 December 2023 | |
| As at 1 January 2023 | 34,721 |
| Depreciation charge | (8,640) |
| Lease termination | (95) |
| | <hr/> |
| As at 31 December 2023 | <u>25,986</u> |
| | |
| | Office premises RMB'000 |
| As at 31 March 2024 | |
| As at 1 January 2024 | 25,986 |
| Depreciation charge | (2,144) |
| | <hr/> |
| As at 31 March 2024 | <u>23,842</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

16. LEASES (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

| | As at 31 December | | As at 31 March |
|--|-------------------|----------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Carrying amount at 1 January | 8,529 | 36,739 | 28,962 |
| New leases | 30,019 | - | - |
| Accretion of interest recognised during the year | 770 | 1,646 | 299 |
| Covid-19-related rent concessions | (1,041) | - | - |
| Lease termination | - | (103) | - |
| Payments | <u>(1,538)</u> | <u>(9,320)</u> | <u>(1,039)</u> |
| Carrying amount at 31 December and 31 March | <u>36,739</u> | <u>28,962</u> | <u>28,222</u> |
| Analysed into: | | | |
| Current portion | 13,496 | 14,463 | 14,619 |
| Non-current portion | 23,243 | 14,499 | 13,603 |

(c) The amounts recognised in profit or loss in relation to leases are as follows:

| | As at 31 December | | As at 31 March |
|---|-------------------|---------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Depreciation of right-of-use assets | 3,465 | 8,640 | 2,144 |
| Interest on lease liabilities | 770 | 1,646 | 299 |
| Lease termination | - | (8) | - |
| Expenses relating to short-term leases | <u>903</u> | <u>906</u> | <u>236</u> |
| Total amount recognised in profit or loss | <u>5,138</u> | <u>11,184</u> | <u>2,679</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

17. INTANGIBLE ASSETS

| | Intellectual property RMB'000 |
|--|----------------------------------|
| 31 December 2022 | |
| At 1 January 2022: | |
| Cost | 100,000 |
| Accumulated amortisation | <u>(20,610)</u> |
| Net carrying amount | <u><u>79,390</u></u> |
| At 1 January 2022, net of accumulated amortisation | 79,390 |
| Amortisation provided during the year | <u>(5,660)</u> |
| At 31 December 2022, net of accumulated amortisation | <u>73,730</u> |
| At 31 December 2022: | |
| Cost | 100,000 |
| Accumulated amortisation | <u>(26,270)</u> |
| Net carrying amount | <u>73,730</u> |
| Intellectual property RMB'000 | |
| 31 December 2023 | |
| At 1 January 2023: | |
| Cost | 100,000 |
| Accumulated amortisation | <u>(26,270)</u> |
| Net carrying amount | <u><u>73,730</u></u> |
| At 1 January 2023, net of accumulated amortisation | 73,730 |
| Amortisation provided during the year | <u>(5,659)</u> |
| At 31 December 2023, net of accumulated amortisation | <u>68,071</u> |
| At 31 December 2023: | |
| Cost | 100,000 |
| Accumulated amortisation | <u>(31,929)</u> |
| Net carrying amount | <u><u>68,071</u></u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

17. INTANGIBLE ASSETS (continued)

| | Intellectual property RMB'000 | |
|--|----------------------------------|--------|
| 31 March 2024 | | |
| At 1 January 2024: | | |
| Cost | 100,000 | |
| Accumulated amortisation | <u>(31,929)</u> | |
| Net carrying amount | <u><u>68,071</u></u> | |
| At 1 January 2024, net of accumulated amortisation | | 68,071 |
| Amortisation provided during the period | <u>(1,414)</u> | |
| At 31 March 2024, net of accumulated amortisation | <u><u>66,657</u></u> | |
| At 31 March 2024: | | |
| Cost | 100,000 | |
| Accumulated amortisation | <u>(33,343)</u> | |
| Net carrying amount | <u><u>66,657</u></u> | |

Intangible assets are tested for impairment based on the recoverable amount of the cash-generating unit ("CGU") to which the intangible asset is related. The appropriate CGU is at the product level. The intangible assets represent intellectual properties and technologies for TY-302, a product of CDK4/6 inhibitor indicated for prostate cancer and breast cancer, at the end each of the reporting periods. The recoverable amount of TY-302 CGU was determined based upon its fair value less costs of disposal. The fair value was estimated using the market approach.

The estimated revenue of TY-302 is based on peak-sales multiple and management's expectations of timing of commercialization and success rate of commercialization of TY-302. The management of the Company estimated that TY-302 will be able to generate revenue from 2029 to 2039, with a growing trend in its revenue in the first six years and reach its peak sales in 2035 and 2036. The peak-sales multiple, ranging from 3.3 to 3.7, was calculated based on comparable transactions and the expected peak sales and market penetration of the product. The expected success rate of commercialization of TY-302, ranging from 21.6% to 54.9%, was determined based on market practices in the pharmaceutical industry, development of technologies and related regulations from authorities. The post-tax discount rate used, ranging from 13.7% to 15.6%, reflects specific risks relating to TY-302.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

17. INTANGIBLE ASSETS (continued)

Below is a summary of key parameters to the valuation of intangible asset together with a quantitative sensitivity analysis and headroom at the end of reporting periods.

As at 31 December 2022

| Key parameters | | Sensitivity for fair value to the input | Headroom RMB'000 |
|---|-------|--|---------------------|
| Peak-sales multiple | 3.7 | 5% increase/ (decrease) in the peak-sales multiple would result in increase/ (decrease) in fair value by RMB8,648 thousand. | |
| Expected success rate of commercialization of TY-302 (Breast cancer (2L+)) | 54.9% | 5% increase/ (decrease) in the expected success rate of commercialization of TY-302 would result in increase/ (decrease) in fair value by RMB8,648 thousand. | 16,204 |
| Expected success rate of commercialization of TY-302 (Prostate cancer (1L)) | 21.6% | | |
| Post-tax discount rate | 15.6% | 5% increase/ (decrease) in the post-tax discount rate would result in (decrease)/increase in fair value by RMB (15,142 thousand)/16,714 thousand. | |

As at 31 December 2023

| Key parameters | | Sensitivity for fair value to the input | Headroom RMB'000 |
|---|-------|---|---------------------|
| Peak-sales multiple | 3.4 | 5% increase/ (decrease) in the peak-sales multiple would result in increase/ (decrease) in fair value by RMB10,573 thousand. | |
| Expected success rate of commercialization of TY-302 (Breast cancer (2L+)) | 54.9% | 5% increase/ (decrease) in the expected success rate of commercialization of TY-302 would result in increase/ (decrease) in fair value by RMB10,573 thousand. | 51,513 |
| Expected success rate of commercialization of TY-302 (Prostate cancer (1L)) | 21.6% | | |
| Post-tax discount rate | 14.4% | 5% increase/(decrease) in the post-tax discount rate would result in (decrease)/increase in fair value by RMB (16,105 thousand)/17,549 thousand. | |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

17. INTANGIBLE ASSETS (continued)

As at 31 March 2024

| Key parameters | | Sensitivity for fair value to the input | Headroom RMB'000 |
|---|-------|--|---------------------|
| Peak-sales multiple | 3.3 | 5% increase/ (decrease) in the peak-sales multiple would result in increase/(decrease) in fair value by RMB11,492 thousand. | |
| Expected success rate of commercialization of TY-302 (Breast cancer (2L+)) | 54.9% | 5% increase/ (decrease) in the expected success rate of commercialization of TY-302 would result in increase/(decrease) in fair value by RMB11,492 thousand. | 63,148 |
| Expected success rate of commercialization of TY-302 (Prostate cancer (1L)) | 21.6% | | |
| Post-tax discount rate | 13.7% | 5% increase/ (decrease) in the post-tax discount rate would result in (decrease)/increase in fair value by RMB (8,808 thousand)/9,445 thousand. | |

The management believes that, any reasonably possible change in the key parameters would not cause the CGU's carrying amount to exceed its recoverable amount.

Based on the result of the impairment tests on TY-302 CGU, the intangible assets were not impaired during the Relevant Periods.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

18. PREPAYMENTS AND OTHER RECEIVABLES

The Group

| | As at 31 December | | As at 31 March |
|---|-------------------|---------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Non-current: | | | |
| Value-added tax recoverable | 7,455 | 14,975 | 18,668 |
| Prepayments for long-term assets | 6,205 | 274 | 3,914 |
| Rental deposits | 1,373 | 1,581 | 1,633 |
| | <u>15,033</u> | <u>16,830</u> | <u>24,215</u> |
| Total | | | |
| Current: | | | |
| Prepayments for research and development services | 28,217 | 33,202 | 36,267 |
| Deferred listing expense | - | 5,391 | 9,502 |
| Others | 1,856 | 1,794 | 2,320 |
| | <u>30,073</u> | <u>40,387</u> | <u>48,089</u> |
| Total | | | |

The Company

| | As at 31 December | | As at 31 March |
|---|-------------------|---------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Non-current: | | | |
| Value-added tax recoverable | 3,516 | 5,916 | 9,059 |
| Prepayments for long-term assets | 2,769 | - | 3,178 |
| Rental deposits | 1,335 | 1,436 | 1,521 |
| | <u>7,620</u> | <u>7,352</u> | <u>13,758</u> |
| Total | | | |
| Current: | | | |
| Prepayments for research and development services | 27,842 | 32,469 | 35,637 |
| Deferred listing expense | - | 5,391 | 9,502 |
| Others | 1,280 | 914 | 1,470 |
| | <u>29,122</u> | <u>38,774</u> | <u>46,609</u> |
| Total | | | |

The financial assets included in the above balances relate to receivables for which there were no recent history of default and past due amounts. In addition, there is no significant change in the economic factors based on the assessment of the forward-looking information, so the directors of the Company are of the opinion that the ECLs in respect of these balances are minimal. The balances are interest-free and are not secured with collateral.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

19. FINANCIAL ASSETS AT FVTPL

The Group

| | As at 31 December 2022 RMB'000 | 2023 RMB'000 | As at 31 March 2024 RMB'000 |
|----------------------------|--------------------------------------|-----------------|-----------------------------------|
| Wealth management products | 152,727 | 6,001 | 75,287 |

The Company

| | As at 31 December 2022 RMB'000 | 2023 RMB'000 | As at 31 March 2024 RMB'000 |
|----------------------------|--------------------------------------|-----------------|-----------------------------------|
| Wealth management products | 132,686 | - | 55,283 |

These wealth management products were issued by banks in Chinese Mainland. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The fair values are based on cash flows discounted using the expected yield rate and are within Level 2 of the fair value hierarchy.

20. CASH AND CASH EQUIVALENTS

The Group

| | As at 31 December 2022 RMB'000 | 2023 RMB'000 | As at 31 March 2024 RMB'000 |
|----------------------------------|--------------------------------------|-----------------|-----------------------------------|
| Cash and bank balances | 90,762 | 186,830 | 77,208 |
| Time deposits over three months* | - | - | 60,000 |
| Cash and cash equivalents | 90,762 | 186,830 | 137,208 |
| Denominated in | | | |
| RMB | 90,762 | 186,824 | 137,202 |
| USD | - | 6 | 6 |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

20. CASH AND CASH EQUIVALENTS (continued)

The Company

| | As at 31 December | | As at 31 March |
|-----------------------------------|-------------------|----------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cash and bank balances | 34,039 | 139,748 | 53,593 |
| Time deposits over three months * | - | - | 60,000 |
| | <u>34,039</u> | <u>139,748</u> | <u>113,593</u> |
| Cash and bank balances | <u>34,039</u> | <u>139,748</u> | <u>113,593</u> |
| Denominated in RMB | <u>34,039</u> | <u>139,748</u> | <u>113,593</u> |

* It represents time deposit in commercial banks of which the term is more than three months.

The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

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21. TRADE AND OTHER PAYABLES

The Group

| | As at 31 December | | As at 31 March |
|---|-------------------|----------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade payables | 9,664 | 32,167 | 22,063 |
| Payroll payables | 4,350 | 10,253 | 3,691 |
| Accrued expenses for research and development services | 16,351 | 36,688 | 40,902 |
| Accrued listing expense | - | 3,868 | 4,478 |
| Other taxes payables | 2,053 | 459 | 12 |
| Other payables | | | |
| - Payables for property, plant and equipment | 23,522 | 32,671 | 26,878 |
| - Payables for transaction cost on issue of redemption liabilities on equity shares | - | 13,508 | - |
| - Others | 274 | 3,815 | 2,116 |
| Total | <u>56,214</u> | <u>133,429</u> | <u>100,140</u> |

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

| | As at 31 December | | As at 31 March |
|--------------------|-------------------|---------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within 3 months | 9,471 | 28,406 | 16,330 |
| 3 to 6 months | 151 | 3,403 | 4,678 |
| 6 months to 1 year | - | 356 | 991 |
| Over 1 year | 42 | 2 | 64 |
| Total | <u>9,664</u> | <u>32,167</u> | <u>22,063</u> |

The trade payables are non-interest-bearing and payable on demand, which are normally settled on terms of 1 to 3 months.

TYK MEDICINES, INC

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31 December 2022 and 2023 and 31 March 2024

21. TRADE AND OTHER PAYABLES (continued)

The Company

| | As at 31 December | | As at 31 March |
|---|-------------------|---------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade payables | 9,331 | 31,193 | 21,234 |
| Payroll payables | 1,795 | 5,975 | 1,772 |
| Accrued expenses for research and development services | 15,624 | 36,176 | 40,356 |
| Accrued listing expense | - | 3,868 | 4,478 |
| Other taxes payables | 744 | 145 | - |
| Other payables | | | |
| - Payables for property, plant and equipment | - | 2,677 | 235 |
| - Payables for transaction cost on issue of redemption liabilities on equity shares | - | 13,508 | - |
| - Others | 242 | 2,644 | 1,742 |
| | <u>27,736</u> | <u>96,186</u> | <u>69,817</u> |
| Total | | | |

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

| | As at 31 December | | As at 31 March |
|--------------------|-------------------|---------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within 3 months | 9,147 | 27,527 | 16,191 |
| 3 to 6 months | 151 | 3,308 | 4,013 |
| 6 months to 1 year | - | 356 | 965 |
| Over 1 year | 33 | 2 | 65 |
| | <u>9,331</u> | <u>31,193</u> | <u>21,234</u> |
| Total | | | |

The trade payables are non-interest-bearing and payable on demand, which are normally settled on terms of 1 to 3 months.

TYK MEDICINES, INC

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31 December 2022 and 2023 and 31 March 2024

22. REDEMPTION LIABILITIES ON EQUITY SHARES

From April 2018 to December 2023, the Company had received several rounds of investments as follows:

In April 2018, the Company issued 20,000,000 angel round equity shares with a par value of RMB1.00 per share (“Angel Round Shares”) to several independent investors for a cash consideration of RMB20,000,000 or RMB1.00 per share.

In April 2019, the Company issued 12,600,000 series pre-A equity shares with a par value of RMB1.00 per share (“Series Pre-A Shares”) to one independent investor for a cash consideration of RMB30,000,000 or RMB2.38 per share.

In December 2020, the Company issued 55,200,000 series B equity shares with a par value of RMB1.00 per share (“Series B Shares”) to several independent investors for a cash consideration of RMB230,000,000 or RMB4.17 per share.

In April 2021, the Company issued first tranche of series B2 equity shares of 9,216,000 with a par value of RMB1.00 per share (“Series B2 Shares”) to several independent investors for a cash consideration of RMB45,000,000 or RMB4.88 per share.

In May 2021, the Company issued second tranche of series B2 equity shares of 23,285,760 with a par value of RMB1.00 per share (“Series B2 Shares”) to several independent investors for a cash consideration of RMB113,700,000 or RMB4.88 per share.

In November 2021, the Company issued first tranche of series C equity shares of 18,778,698 with a par value of RMB1.00 per share (“Series C Shares”) to several independent investors for a cash consideration of RMB150,000,000 or RMB7.99 per share. The Company received RMB145,000,000 with 18,152,741 of the first tranche of Series C Shares issued.

In December 2021, the Company issued second tranche of Series C Shares of 22,534,437 to Series C holders and several independent investors for a cash consideration of RMB180,000,000 or RMB7.99 per share. The cash consideration for Series C Shares was received in 2022.

In August 2023, the Company issued first tranche of series D equity shares of 8,898,296 with a par value of RMB1.00 per share (“Series D Shares”) to several independent investors for a cash consideration of RMB85,000,000 or RMB9.55 per share.

In December 2023, the Company issued second tranche of Series D Shares of 10,468,584 to Series D holders and an independent investor for a cash consideration of RMB100,000,000 or RMB9.55 per share.

Angel Round Shares, Series Pre-A Shares, Series A Shares, Series B Shares, Series B2 Shares, Series C Shares and Series D Shares are collectively referred as Shares.

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

22. REDEMPTION LIABILITIES ON EQUITY SHARES (continued)

The key terms of the Shares are summarized as follows:

(a) Redemption features

Upon occurrence of the following events, the Shares shall be redeemable at the option of the Shareholders: (i) any material breach or violation of, or inaccuracy or misrepresentation in any representation or warranty made by any entity within the Group or the existing shareholders of the Group in the Share Agreement (The R&D materials and experimental data provided are false or major omissions); (ii) IPO failure or expected IPO failure on 31 December 2024; (iii) any criminal investigation of the Group or the actual controller, or administrative penalties or other major violations of laws and regulations affecting the Company's qualified IPO; (iv) the resignation of the actual controller and 50% or more than of the Company's core personnel; (v) the revocation of the Company's registered core patents; (vi) any arbitration or litigation initiated by a third party with the core patents and patent application rights of the Company as the subject matter may result in the non-marketing of the drugs developed by the Company; (vii) any competent authority effective judgement or ruling that the core patents and patent application rights of the Group infringe the rights of third parties; and (viii) any issuance of a qualified audit report of the Company.

The redemption amount is calculated as the higher of (i) P+I; (ii) the net assets of the company audited by an accountant firm with experience in securities practice that is selected by the company and approved by the investors at the time of transfer held by the investors; and (iii) the investment principal plus the increase of the shareholders' equity of the company held by the investors in proportion to the shareholding period.

(b) Liquidation preferences

In the event of any liquidation, dissolution, winding up of the Company or deemed liquidation event, holders of the Shares shall be entitled to be paid out of the funds and assets available for distribution to the members of the Company, an amount per share equal to the original issue price for each series equity share at 10% interest rate per annum, plus any dividends declared but unpaid thereon in the sequence as follows:

- (1) Series D Shares
- (2) Series C Shares
- (3) Series B Shares and Series B2 Shares
- (4) Series Pre-A Shares
- (5) Angel Round Shares

(c) Anti-dilution right

If the Company increases its paid-in capital at a price lower than the price paid by the investors on a per paid-in capital basis, the investors have a right to require the Company to issue additional paid-in capital for nil consideration to the investors or receive cash compensation, so that the total amount paid by the investors divided by the total amount of paid-in capital obtained is equal to the price per paid-in capital in the new issuance.

TYK MEDICINES, INC

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31 December 2022 and 2023 and 31 March 2024

22. REDEMPTION LIABILITIES ON EQUITY SHARES (continued)

Pursuant to a termination agreement entered into among the Shareholders and the Company relating to such special rights dated 17 January 2024, the redemption right ceased to be effective from the day before the date of the first submission of the first listing application form for the Listing and all other special rights ceased to be effective upon Listing provided that all such special rights shall be automatically reinstated as if the termination of such rights had never taken place in the event where (i) the Company withdraws its application for the public offering, (ii) the Stock Exchange, the SFC or any competent securities regulatory authority has decided not to approve or to reject the listing application of the Company or otherwise terminate the listing application review procedure, or (iii) the Company fails to complete the public offering within 14 months from the date of submission of the application to the Stock Exchange.

Presentation and classification

The Group and the Company have recognised the Shares as redemption liabilities on equity shares. The change in fair value of the Shares is charged to profit or loss except for the portion attributable to credit risk change that shall be charged to other comprehensive income. Management considered that the fair value change in the Shares attributable to changes of own credit risk is not significant.

TYK MEDICINES, INC

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31 December 2022 and 2023 and 31 March 2024

22. REDEMPTION LIABILITIES ON EQUITY SHARES (continued)

The movements in our redemption liabilities on equity shares are set out as follows:

The Group

| | Angel Round Shares RMB'000 | Series Pre-A Shares RMB'000 | Series B Shares RMB'000 | Series B2 Shares RMB'000 | Series C Shares RMB'000 | Series D Shares RMB'000 | Total Shares RMB'000 |
|----------------------|----------------------------------|-----------------------------------|----------------------------|--------------------------------|----------------------------|-------------------------------|-------------------------|
| At 1 January 2022 | 27,173 | 38,145 | 252,537 | 170,567 | - | - | 488,422 |
| Change in fair value | 2,000 | 3,000 | 23,000 | 16,180 | 24,932 | - | 69,112 |
| Issuance for cash | - | - | - | - | 325,000 | - | 325,000 |
| At 31 December 2022 | 29,173 | 41,145 | 275,537 | 186,747 | 349,932 | - | 882,534 |
| Change in fair value | 2,000 | 3,000 | 23,000 | 16,180 | 32,500 | 1,110 | 77,790 |
| Issuance for cash | - | - | - | - | - | 185,000 | 185,000 |
| At 31 December 2023 | 31,173 | 44,145 | 298,537 | 202,927 | 382,432 | 186,110 | 1,145,324 |
| Change in fair value | 498 | 748 | 5,734 | 4,035 | 8,102 | 4,612 | 23,729 |
| At 31 March 2024 | 31,671 | 44,893 | 304,271 | 206,962 | 390,534 | 190,722 | 1,169,053 |

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NOTES TO FINANCIAL STATEMENTS

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23. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Effective interest rate (%) | Maturity | As at 31 March 2024 RMB'000 |
|------------------------|-----------------------------|--------------------------------|-----------------------------------|
| Current | | | |
| Bank loans – unsecured | 3.60-3.90 | September 2024 - March 2025 | 80,488 |
| | | | As at 31 March 2024 RMB'000 |
| Analysed into: | | | |
| Bank loans: | | | |
| Within one year | | | 80,488 |

(a) All bank loans are denominated in RMB.

(b) The Group's bank loans are unsecured, bear interest at 3.60% - 3.90% per annum and are repayable within one year.

24. DEFERRED INCOME

| | As at 31 December 2022 RMB'000 | As at 31 December 2023 RMB'000 | As at 31 March 2024 RMB'000 |
|--|--------------------------------------|--------------------------------------|-----------------------------------|
| Government grants related to interest-free financing (note 25) | 24,828 | 45,299 | 47,851 |
| Government grants related to income* | - | 2,982 | 5,298 |
| | 24,828 | 48,281 | 53,149 |

*The movements in deferred income during the year ended 31 December 2023 and three months ended 31 March 2024 are as follows:

| | As at 31 December 2023 RMB'000 | As at 31 March 2024 RMB'000 |
|---|--------------------------------------|-----------------------------------|
| At beginning of the year/period | - | 2,982 |
| Grants received during the year/period | 6,300 | 3,840 |
| Amounts released to profit or loss during the year/period | (3,318) | (1,524) |
| At end of the year/period | 2,982 | 5,298 |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

24. DEFERRED INCOME (continued)

The grants were government subsidies received from local government authorities to support the Group's research and development activities and will be recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

25. OTHER LONG-TERM PAYABLES

| | As at 31 December | | As at 31 March |
|--------------------|-------------------|---------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Government funding | 39,584 | 84,408 | 93,933 |

In March 2021, the Company entered into an investment agreement (the "Changxing Investment Agreement") with Administrative Committee of Changxing Economic and Technological Development Zone (長興經濟技術開發區管理委員會). Pursuant to the Changxing Investment Agreement, Changxing Xingkang Equity Investment Partnership (Limited Partnership) (長興興康股權投資合夥企業 (有限合夥)) ("CX Xingkang") subscribed for 6,000,000 equity shares in Changxing KY with interest-free repayable financing, which would not exceed RMB220,000,000 in aggregate. In July 2021, June 2022, January 2023 and February 2024, Changxing KY received financing of RMB26,860,000, RMB40,000,000, RMB65,000,000 and RMB12,000,000 respectively, from CX Xingkang. The financing is repayable within seven and a half years from the date of the land transfer. The equity shares held by CX Xingkang would be cancelled upon repayment of the financing.

The financing received by Changxing KY is recorded as a financial liabilities measured at the present value of the repayment amount. As the financing received in July 2021, June 2022, January 2023 and February 2024 was interest-free, the differences between the initial carrying values of the financing and the proceeds received of RMB17,261,000, RMB26,546,000, RMB26,546,000 and RMB4,261,000 were recognised as government grant in the the year ended 31 December 2022 and 2023 and the three months ended 31 March 2023 and 2024, respectively.

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26. SHARE CAPITAL

The Company was incorporated on 2 November 2017 as a limited company under the laws of the PRC with authorised share capital of RMB322,955,818.

Shares

| | As at 31 December | | As at 31 March |
|---|-------------------|---------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Issued and fully paid: | | | |
| 322,955,818 (2023: 307,355,818, 2022: 287,988,938) shares | 287,989 | 307,356 | 322,956 |

A summary of movements in the Company's share capital is as follows:

| | Number of shares in issue '000 | Share capital RMB'000 |
|---|-----------------------------------|--------------------------|
| As at 1 January 2022 | 247,302 | 247,302 |
| Series C Shares | 40,687 | 40,687 |
| As at 31 December 2022 and 1 January 2023 | 287,989 | 287,989 |
| Series D Shares | 19,367 | 19,367 |
| As at 31 December 2023 and 1 January 2024 | 307,356 | 307,356 |
| Series Pre-A Shares | 8,400 | 8,400 |
| Series B Shares | 7,200 | 7,200 |
| As at 31 March 2024 | 322,956 | 322,956 |

In January 2024, consideration for 8,400,000 Series Pre-A Shares, RMB 20,000,000, and consideration for 7,200,000 Series B Shares, RMB30,000,000, were settled by Changxing Liyuan Enterprise Management Partnership (Limited Partnership) (長興利源企業管理合夥企業(有限合夥)), Changxing Caiyuan and Changxing Gangyuan. As at 26 January 2024, the registered share capital of the Company was RMB322,955,818 and was fully paid.

TYK MEDICINES, INC

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27. RESERVES

The Group

The amounts of the Group's share premium and other reserves and the movements therein for the Relevant Periods and three months ended 31 March 2023 are presented in the consolidated statement of changes in equity.

(a) Share premium

The share premium of the Group represents the difference between the par value of the shares issued and the consideration received.

(b) Share-based payment reserve

The share-based payment reserve represents the equity-settled share awards as set out in note 28 to the financial statements.

(c) Other reserves

Other reserves of the Group represent the carrying amount of the equity shares with redemption features as stipulated in note 22 to the financial statements.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

27. RESERVES (continued)

The Company

| | Share premium | Share- based payment reserve | Other reserves | Accumulated losses | Total |
|---|------------------|---------------------------------------|-------------------|-----------------------|--------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2022 | <u>318,398</u> | <u>-</u> | <u>(441,800)</u> | <u>(288,354)</u> | <u>(411,756)</u> |
| Issue of Series C Shares | 284,313 | - | - | - | 284,313 |
| Recognition of redemption liabilities on Series C Shares (note 22) | - | - | (325,000) | - | (325,000) |
| Total comprehensive loss for the year | <u>-</u> | <u>-</u> | <u>-</u> | <u>(273,403)</u> | <u>(273,403)</u> |
| At 31 December 2022 and 1 January 2023 | <u>602,711</u> | <u>-</u> | <u>(766,800)</u> | <u>(561,757)</u> | <u>(725,846)</u> |
| Issue of Series D Shares | 165,633 | - | - | - | 165,633 |
| Recognition of redemption liabilities on Series D Shares (note 22) | - | - | (185,000) | - | (185,000) |
| Share-based payment compensation (note 28) | - | 3,887 | - | - | 3,887 |
| Total comprehensive loss for the year | <u>-</u> | <u>-</u> | <u>-</u> | <u>(329,128)</u> | <u>(329,128)</u> |
| At 31 December 2023 | <u>768,344</u> | <u>3,887</u> | <u>(951,800)</u> | <u>(890,885)</u> | <u>(1,070,454)</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

27. RESERVES (continued)

The Company

| | Share premium | Share- based payment reserve | Other reserves | Accumulated losses | Total |
|--|------------------|---------------------------------------|-------------------|-----------------------|--------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2023 | <u>602,711</u> | <u>-</u> | <u>(766,800)</u> | <u>(561,757)</u> | <u>(725,846)</u> |
| Total comprehensive loss for the period | <u>-</u> | <u>-</u> | <u>-</u> | <u>(72,549)</u> | <u>(72,549)</u> |
| At 31 March 2023 <i>(unaudited)</i> | <u>602,711</u> | <u>-</u> | <u>(766,800)</u> | <u>(634,306)</u> | <u>(798,395)</u> |
| At 1 January 2024 | <u>768,344</u> | <u>3,887</u> | <u>(951,800)</u> | <u>(890,885)</u> | <u>(1,070,454)</u> |
| Issue of authorised Series Pre-A Shares (note 26) | 11,600 | - | - | - | 11,600 |
| Issue of authorised Series B Shares (note 26) | 22,800 | - | - | - | 22,800 |
| Share-based payment compensation (note 28) | - | 3,138 | - | - | 3,138 |
| Total comprehensive loss for the period | <u>-</u> | <u>-</u> | <u>-</u> | <u>(97,898)</u> | <u>(97,898)</u> |
| At 31 March 2024 | <u>802,744</u> | <u>7,025</u> | <u>(951,800)</u> | <u>(988,783)</u> | <u>(1,130,814)</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

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28. SHARE-BASED PAYMENTS

The Group adopted a restricted share scheme (“Employee Incentive Scheme”) which became effective in 2023, for the purpose of attracting and retaining directors, senior management and employees who promote the success of the Group’s operations. Changxing Caiyuan Enterprise Management Partnership (Limited partnership)(長興彩源企業管理合夥企業(有限合夥)) (“Changxing Caiyuan”) and Changxing Gangyuan Enterprise Management Partnership (Limited partnership)(長興罡源企業管理合夥企業(有限合夥)) (“Changxing Gangyuan”) are used as restricted share platforms to facilitate the administration of the Employee Incentive Scheme. 8,580,000 shares of the Company, of which 3,780,000 were held by Changxing Caiyuan and 4,800,000 were held by Changxing Gangyuan, were authorized and approved under the Employee Incentive scheme. Pursuant to the Employee Incentive Scheme, the subscription price is RMB2.38 per share and RMB4.17 per share for restricted shares held by Changxing Caiyuan and Changxing Gangyuan respectively.

The restricted shares granted to grantees shall vest and become tradable upon the completion of public offering.

Details of the granted shares are as follows:

| Date of grant | Number of shares | Subscription price per share | Fair value at grant date per share |
|-----------------|------------------|------------------------------|------------------------------------|
| October 19,2023 | 3,780,000 | RMB2.38 | RMB5.29 |
| October 19,2023 | 4,800,000 | RMB4.17 | RMB5.29 |

The following restricted shares were outstanding under the Employee Incentive Scheme during the Relevant Periods:

| | Number of restricted shares |
|---------------------------|-----------------------------|
| As at 1 January 2023 | - |
| Granted during the year | 8,580,000 |
| As at 31 December 2023 | 8,580,000 |
| Granted during the period | - |
| As at 31 March 2024 | 8,580,000 |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

28. SHARE-BASED PAYMENTS (continued)

The following restricted shares were outstanding under the Employee Incentive Scheme during the Relevant Periods (continued):

During the years ended 31 December 2022 and 2023 and the three months ended 31 March 2024, share-based payment compensation expenses of nil and RMB3,887,000 and RMB3,138,000 were charged to profit or loss.

The fair value of the restricted shares as at the grant date were determined with reference to the fair value of ordinary shares on the grant date, using backsolve method. Major inputs used for the determination of the fair value of ordinary shares are listed as follows:

| | |
|------------------------------------|---------------|
| | At grant date |
| Expected volatility | 66.15%-69.52% |
| Risk-free interest rate | 2.16% |
| Discount for lack of marketability | 5.00%-24.00% |

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the years ended 31 December 2022 and 2023 and the three months ended 31 March 2024, the Group had non-cash additions to right-of-use assets of RMB43,128,000 and nil and nil, and non-cash additions to lease liabilities of RMB43,128,000 and nil and nil, respectively, in respect of lease arrangements for office premises.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

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29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

| | Lease liabilities | Other long-term payables | Accrued listing expenses included in trade and other payables | Accrued transaction cost on issue of redemption liabilities on equity shares in trade and other payables |
|--|-------------------|--------------------------|---|--|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2022 | 14,380 | 14,683 | - | - |
| Additions | 43,128 | - | - | - |
| Changes from financing cash flows | (1,611) | 40,000 | - | - |
| Recognition of government grants related to interest-free financing | - | (17,261) | - | - |
| Covid-19-related rent concessions | (1,041) | - | - | - |
| Accretion of interest | 1,094 | 2,162 | - | - |
| At 31 December 2022 and 1 January 2023 | 55,950 | 39,584 | - | - |
| Changes from financing cash flows | (16,476) | 65,000 | (9,527) | - |
| Additions | - | - | 13,395 | - |
| Transaction cost on issue of redemption liabilities on equity shares | - | - | - | 13,508 |
| Recognition of government grants related to interest-free financing | - | (26,546) | - | - |
| Lease termination | (103) | - | - | - |
| Accretion of interest | 2,358 | 6,370 | - | - |
| At 31 December 2023 | 41,729 | 84,408 | 3,868 | 13,508 |

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NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities (continued)

| | Lease liabilities | Other long-term payables | Accrued listing expenses included in trade and other payables | Accrued transaction cost on issue of redemption liabilities on equity shares in trade and other payables | Interest- bearing bank and other borrowings |
|---|----------------------|--------------------------------|---|--|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2023 | 55,950 | 39,584 | - | - | - |
| Changes from financing cash flows | (7,459) | 65,000 | - | - | - |
| Recognition of government grants related to interest-free financing | - | (26,546) | - | - | - |
| Accretion of interest | 694 | 1,443 | - | - | - |
| At 31 March 2023 (unaudited) | 49,185 | 79,481 | - | - | - |
| At 1 January 2024 | 41,729 | 84,408 | 3,868 | 13,508 | - |
| Changes from financing cash flows | (1,039) | 12,000 | (11,190) | (13,508) | 80,327 |
| Additions | - | - | 11,800 | - | - |
| Recognition of government grants related to interest-free financing | - | (4,261) | - | - | - |
| Lease termination | (201) | - | - | - | - |
| Accretion of interest | 414 | 1,786 | - | - | 161 |
| At 31 March 2024 | 40,903 | 93,933 | 4,478 | - | 80,488 |

TYK MEDICINES, INC

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29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statements of cash flows is as follows:

| | Year ended 31 December | | Three months ended 31 March | |
|-----------------------------|---------------------------|-----------------|---------------------------------------|-----------------|
| | 2022 RMB'000 | 2023 RMB'000 | 2023 RMB'000 <i>(unaudited)</i> | 2024 RMB'000 |
| Within operating activities | (1,020) | (923) | (225) | (238) |
| Within financing activities | (1,611) | (16,476) | (7,459) | (1,039) |
| Total | <u>(2,631)</u> | <u>(17,399)</u> | <u>(7,684)</u> | <u>(1,277)</u> |

30. COMMITMENTS

The Group had the following contractual commitments at the end of the Relevant Periods:

| | As at 31 December | | As at 31 March |
|-------------------------------|-------------------|-----------------|-----------------|
| | 2022 RMB'000 | 2023 RMB'000 | 2024 RMB'000 |
| Property, plant and equipment | <u>12,393</u> | <u>15,540</u> | <u>8,425</u> |

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NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

31. RELATED PARTY TRANSACTIONS

(a) Name and relationship

The directors of the Group are of the opinion that the following companies are related parties that had transactions or balances with the Group during the Relevant Periods.

| <u>Name of related parties</u> | <u>Relationship with the Group</u> |
|--|--|
| LeadMed (Zhejiang) Co., Ltd. (“LeadMed Zhejiang”) | Controlled by Dr. Wu Yusheng |
| Tetranov Pharmaceutical (Zhengzhou) Co., Ltd. (“Tetranov”) | Controlled by Dr. Wu Yusheng |
| LeadMed (Zhengzhou) Co., Ltd. (“LeadMed Zhengzhou”) | Controlled by Dr. Wu Yusheng |
| Shanghai Aobo Pharmtech, Inc., Ltd. (“Shanghai Aobo”) | Gu Eric Hong, the director of both Shanghai Aobo and the Group |
| Sichuan Huiyu Pharmaceutical Co., Ltd. (“Sichuan Huiyu”) | Shareholder |

(b) The Group had the following transactions with related parties during the Relevant Periods and three months ended 31 March 2023:

| | Year ended | | Three months ended | |
|-----------------------|--------------|--------------|--------------------|--------------|
| | 31 December | | 31 March | |
| | 2022 | 2023 | 2023 | 2024 |
| | RMB’000 | RMB’000 | RMB’000 | RMB’000 |
| | | | (unaudited) | |
| Purchase of goods | | | | |
| Sichuan Huiyu | - | - | - | 1,062 |
| Provision of services | | | | |
| Sichuan Huiyu | - | - | - | 1,981 |
| LeadMed Zhejiang | 2,057 | - | - | - |
| LeadMed Zhengzhou | 1,179 | - | - | - |
| Shanghai Aobo | 1,142 | - | - | - |
| Rental fee | | | | |
| Tetranov | 1,186 | 1,186 | 323 | 323 |
| | <u>5,564</u> | <u>1,186</u> | <u>323</u> | <u>3,366</u> |

The purchases of goods and provision of services from the related parties were made according to the published prices and conditions agreed by the Group and the related parties.

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31. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties:

| | As at 31 December | | As at 31 March |
|--|-------------------|----------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Amount advanced to a related party: | | | |
| Prepayments-current (trade in nature): | | | |
| Sichuan Huiyu | - | - | 177 |
| | <u>-</u> | <u>-</u> | <u>177</u> |

Amount advanced to a related party is unsecured, non-interest-bearing and repayable on demand. The carrying amounts of amounts due to related parties as at the end of each of the Relevant Periods approximated to their fair values due to their short-term maturities.

The outstanding balance is prepayments for the purchase of goods and provision of services.

(d) Compensation of key management personnel of the Group

| | Year ended | | Three months ended | |
|---|--------------|--------------|--------------------|------------|
| | 31 December | | 31 March | |
| | 2022 | 2023 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | (unaudited) | |
| Salaries, allowances and benefits in kind | 2,153 | 2,360 | 585 | 346 |
| Share-based payment compensation | - | 510 | - | 412 |
| Pension scheme contributions | 7 | 4 | 2 | - |
| Housing funds, medical insurance and other social insurance | 4 | 3 | 1 | - |
| | <u>2,164</u> | <u>2,877</u> | <u>588</u> | <u>758</u> |

Further details of directors', supervisors' and the chief executive's emoluments are included in note 10 to the financial statements .

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the Relevant Periods are as follows:

The Group

Financial assets

| | As at 31 December | | As at 31 March |
|--|-------------------|----------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Financial assets at FVTPL | | | |
| Wealth management products | 152,727 | 6,001 | 75,287 |
| Financial assets at amortised cost | | | |
| Restricted bank deposit | 5,840 | 5,174 | 4,686 |
| Financial assets included in prepayments and other receivables | 3,229 | 3,375 | 3,953 |
| Time deposits | - | - | 60,000 |
| Cash and cash equivalents | 90,762 | 186,830 | 77,208 |
| Total | <u>99,831</u> | <u>195,379</u> | <u>145,847</u> |

Financial liabilities

| | As at 31 December | | As at 31 March |
|--|-------------------|----------------|----------------|
| | 2022 | 2023 | 2024 |
| | RMB'000 | RMB'000 | RMB'000 |
| Financial liabilities at FVTPL | | | |
| Redemption liabilities on equity shares | 882,534 | 1,145,324 | 1,169,053 |
| Financial liabilities at amortised cost | | | |
| Trade and other payables | 49,811 | 122,717 | 96,437 |
| Interest-bearing bank and other borrowings | - | - | 80,488 |
| Other long-term payables | 39,584 | 84,408 | 93,933 |
| Total | <u>89,395</u> | <u>207,125</u> | <u>270,858</u> |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

31 December 2022 and 2023 and 31 March 2024

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposit (in the current portion), financial assets included in prepayments and other receivables (in the current portion), financial liabilities included in trade and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments. The fair values of the other non-current financial assets and financial liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of the Relevant Periods, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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

The Group invests in financial assets at fair value through profit or loss, which represent wealth management products issued by banks. The fair values are based on cash flows discounted using the expected yield rate.

Below is a summary of significant unobservable inputs to the valuation of redemption liability on equity shares together with an analysis as at 31 December 2022 and 2023 and 31 March 2024.

| Financial liabilities | Fair value hierarchy | Valuation technique | Unobservable input | Relationship of unobservable inputs to fair value |
|---------------------------------------|----------------------|-----------------------------|--|---|
| redemption liability on equity shares | Level 3 | Discounted cash flow method | (i) P+I (annual simple rate of 10%); (ii) The net assets of the Company held by the investors; (iii) The investment principal plus the increase of the shareholders' equity of the Company held by the investors in proportion to the shareholding period. | The higher the input, the higher the fair value |

The Group are principally engaged in the research, development and commercialization of pharmaceutical products and in operating loss and net liabilities position throughout the Relevant Periods, making redemption amount calculated based on (ii) or (iii) lower than that from (i). Accordingly, the fair value of redemption liabilities on equity shares was calculated based on (i) as of 31 December 2022 and 2023 and 31 March 2024, the interest rate of which is fixed in the agreement. Therefore, the quantitative sensitivity analysis on changes in (ii) and (iii) would be immaterial and insignificant.

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

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**33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(Continued)**

Fair value hierarchy

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

Assets measured at fair value:

| | Fair value measurement using | | | Total RMB'000 |
|--|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| As at 31 December 2022 Wealth management products | - | 152,727 | - | 152,727 |
| As at 31 December 2023 Wealth management products | - | 6,001 | - | 6,001 |
| As at 31 March 2024 Wealth management products | - | 75,287 | - | 75,287 |

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**33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(Continued)**

Fair value hierarchy(Continued)

Liabilities measured at fair value:

| | Fair value measurement using | | | Total RMB'000 |
|---|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| As at 31 December 2022 Redemption liabilities on equity shares | - | - | 882,534 | 882,534 |
| As at 31 December 2023 Redemption liabilities on equity shares | - | - | 1,145,324 | 1,145,324 |
| As at 31 March 2024 Redemption liabilities on equity shares | - | - | 1,169,053 | 1,169,053 |

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

Management has assessed that during the Relevant Periods, prepayments and other receivables have not had a significant increase in credit risk since initial recognition. Thus, ECLs are provided for credit losses that result from default events that are possible within the next 12 months. The management of the Company expect the occurrence of losses from non-performance by counterparties of other receivables to be remote and a loss allowance provision for other receivables to be immaterial.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of the Relevant Periods.

The amounts presented are gross carrying amounts for financial assets.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group

As at 31 December 2022

| | 12-month ECLs | | Lifetime ECLs | | Total |
|--|---------------|----------|---------------|---------|---------------|
| | Stage 1 | Stage 2 | Stage 3 | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Financial assets included in prepayments and other receivables | 3,229 | - | - | | 3,229 |
| Restricted bank deposit | 5,840 | - | - | | 5,840 |
| Cash and cash equivalents | 90,762 | - | - | | 90,762 |
| Total | 99,831 | - | - | | 99,831 |

As at 31 December 2023

| | 12-month ECLs | | Lifetime ECLs | | Total |
|--|----------------|----------|---------------|---------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Financial assets included in prepayments and other receivables | 3,375 | - | - | | 3,375 |
| Restricted bank deposit | 5,174 | - | - | | 5,174 |
| Cash and cash equivalents | 186,830 | - | - | | 186,830 |
| Total | 195,379 | - | - | | 195,379 |

As at 31 March 2024

| | 12-month ECLs | | Lifetime ECLs | | Total |
|--|----------------|----------|---------------|---------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Financial assets included in prepayments and other receivables | 3,953 | - | - | | 3,953 |
| Restricted bank deposit | 4,686 | - | - | | 4,686 |
| Time deposits | 60,000 | - | - | | 60,000 |
| Cash and cash equivalents | 77,208 | - | - | | 77,208 |
| Total | 145,847 | - | - | | 145,847 |

TYK MEDICINES, INC

NOTES TO FINANCIAL STATEMENTS

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

| | As at 31 December 2022 | | | Total RMB'000 |
|--|--------------------------|-------------------------|----------------------------|------------------|
| | Within 1 year RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | |
| Financial liabilities included in trade and other payables | 49,811 | - | - | 49,811 |
| Redemption liabilities on equity shares | 882,534 | - | - | 882,534 |
| Other long-term payables | - | - | 66,860 | 66,860 |
| Lease liabilities | 25,887 | 34,992 | - | 60,879 |
| Total | 958,232 | 34,992 | 66,860 | 1,060,084 |
| | As at 31 December 2023 | | | |
| | Within 1 year RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Financial liabilities included in trade and other payables | 122,717 | - | - | 122,717 |
| Redemption liabilities on equity shares | 1,145,324 | - | - | 1,145,324 |
| Other long-term payables | - | - | 131,860 | 131,860 |
| Lease liabilities | 23,742 | 20,553 | - | 44,295 |
| Total | 1,291,783 | 20,553 | 131,860 | 1,444,196 |

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NOTES TO FINANCIAL STATEMENTS

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

| | As at 31 March 2024 | | | Total RMB'000 |
|--|--------------------------|-------------------------|----------------------------|------------------|
| | Within 1 year RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | |
| Financial liabilities included in trade and other payables | 96,437 | - | - | 96,437 |
| Redemption liabilities on equity shares | 1,169,053 | - | - | 1,169,053 |
| Other long-term payables | - | - | 143,860 | 143,860 |
| Interest-bearing bank and other borrowings | 83,336 | - | - | 83,336 |
| Lease liabilities | 23,968 | 19,079 | - | 43,047 |
| Total | <u>1,372,794</u> | <u>19,079</u> | <u>143,860</u> | <u>1,535,733</u> |

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

35. EVENT AFTER THE RELEVANT PERIOD

In December 2023, the Group has entered into an equity transfer agreement dated 18 December 2023 and supplemental agreements dated 13 March 2024 and 5 June 2024 to transfer the entire equity interest of Shanghai Yabao to an independent third party and the transaction is in the process of obtaining regulatory approval by relevant authorities as of the date of this report.

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 31 March 2024.

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NOTES TO FINANCIAL STATEMENTS

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37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 August 2024.