SUMMARY

This summary aims to give you an overview of the information contained in this Document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire Document before you decide to **[REDACTED]** *in the* **[REDACTED]**. *In particular, we are seeking to* **[REDACTED]** *on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules on the basis that we are unable to meet the requirements under Rule 8.05 (1), (2) or (3) of the Listing Rules. There are unique challenges, risks and uncertainties associated with* **[REDACTED]** *in companies such as us. In addition, we have incurred significant losses since our inception, and we expect to remain loss making in the near term. We had negative net cash flow from operating activities during the Track Record Period. We did not declare or pay any dividends during the Track Record Period and do not intend to pay any dividends in the near future. Your* **[REDACTED]** *decision should be made in light of these considerations.*

OVERVIEW

We are a globally leading end-to-end generative AI-driven biotech company in terms of AIDD pipeline progress, with a mission to accelerate drug discovery and development by leveraging our rapidly evolving, proprietary Pharma.AI platform across biology, chemistry and clinical development. Founded in 2014 at the Emerging Technology Centers of Johns Hopkins University in Baltimore, Maryland, we have a global presence in the U.S., Greater China, Canada and the Middle East. In 2019, we established our Hong Kong headquarters with a team consisting of disease modeling and target discovery scientists, as well as generative AI engineers led by our CEO, who resides in Hong Kong. Our generative AI platform helps us to rapidly and efficiently advance our fully self-generated AIDD pipeline primarily composed of novel drug candidates. As of the Latest Practicable Date, we have efficiently built a diversified, internally generated pipeline consisting of 31 programs across 29 drug targets. Our Core Product, ISM001-055, also known as INS018_055, is a small-molecule drug candidate primarily designed to treat fibrosis-related indications by inhibiting TNIK, a novel anti-fibrotic target identified through our Pharma.AI platform. We initiated a multi-center, randomized, double-blind, placebo-controlled Phase IIa clinical trial to evaluate the safety, tolerability, PK and efficacy of ISM001-055 in China in April 2023 and plan to initiate the U.S. Phase IIa clinical trial in the second half of 2023. Furthermore, ISM001-055 received orphan drug designation from the FDA in February 2023, qualifying us for incentives including a potential seven-year market exclusivity after approval. We believe that ISM001-055 could be a first-in-class drug candidate with the potential to provide better treatment outcomes for IPF patients.

WE MAY NOT BE ABLE TO SUCCESSFULLY DEVELOP AND/OR MARKET OUR CORE PRODUCT AND OTHER PIPELINE PRODUCTS.

We are driven by a highly experienced therapeutic pipeline development team and a world-class generative AI platform development team. Each team is led by a leader who is an expert in his field. Our dual-CEO structure helps us combine a highly efficient therapeutic pipeline development process with state-of-the-art generative AI capabilities to achieve our goal of bringing novel and clinically meaningful therapies to patients. On the therapeutics development front, we have established a cutting-edge target discovery and validation laboratory in Suzhou, China, which combines our Pharma.AI backbone with its full suite of generative capabilities with wet lab capabilities to enable the automation of multiple drug discovery workflows while reducing human and experimental bias. Our internal pharmaceutical pipeline development capabilities are complemented by an extensive network of CROs and CDMOs that support our discovery, preclinical and clinical activities to facilitate the efficient progression of our drug candidates into clinical trials. On the generative AI technology front, our Pharma.AI enables the rapid discovery of novel targets including in previously undruggable targets, the efficient generation of drug candidates and the prediction of drug candidates' likelihood of clinical success.

Our business model consists of (i) the research and development of our generative AI-driven therapeutic pipeline and (ii) software licensing. We have made significant investments in building our generative AI-based drug discovery and development platform and have generated a rich pipeline targeting areas of unmet need in

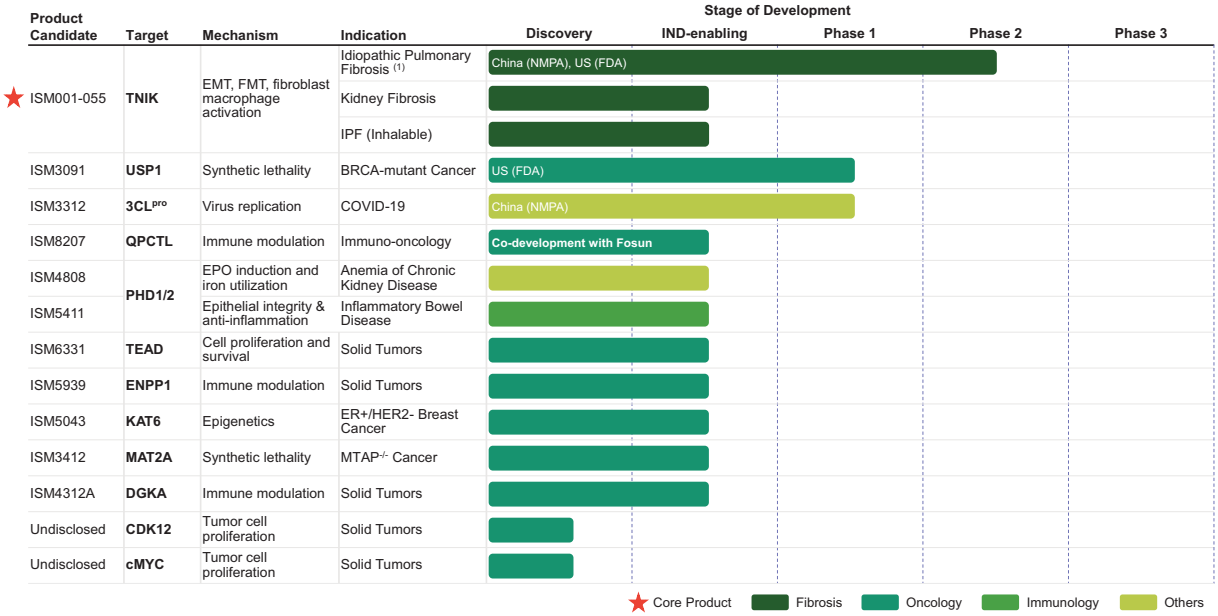
oncology, immunology, fibrosis and other therapeutic areas. Compared to the pharmaceutical industry's average of 4.5 years from program initiation to IND-enabling stage, our innovative generative AI platform and pipeline development process has enabled us to do so in 12 months for a typical pipeline candidate. As our pipeline candidates mature and grow in potential value, we may consider out-licensing them to pharmaceutical companies. We also enter into strategic drug discovery and development collaborations with pharmaceutical companies to explore potential targets and drug candidates that have the potential to become part of our drug development pipeline. We currently collaborate with 10 of the top 20 global pharmaceutical companies in terms of reported sales in 2021. Our strategic collaborators typically leverage our technology and development capabilities to complement and accelerate drug discovery and development efforts. A typical collaboration deal includes a combination of upfront payment, IP rights, success-based development, regulatory and commercial milestones and royalties. Finally, our software licensing activities include the out-licensing of our Pharma.AI platform, consisting of Biology42, Chemistry42 and Medicine42, for target discovery, small molecule and biologics generation and clinical trial prediction and optimization. While focused on the pharmaceutical industry, our generative AI platform has broad potential applications.

Our generative AI platform has enabled us to discover novel targets and generate novel drug candidates that are difficult to develop using traditional drug discovery methods. Our lead program undergoing Phase II trials for IPF demonstrates the potential of our platform and represents a first-of-its-kind program with an AI-discovered drug for an AI-discovered target. While IPF represents an attractive opportunity for new therapies given the significant unmet need, there are currently limited therapeutic options on the market. Previous attempts to develop drugs for the fibrotic disease market using traditional drug development methods have met with limited success. This is because drug discovery and development for fibrotic diseases presents unique challenges, such as complex pathophysiology, poor diagnosis rates and poor understanding of disease biology. However, our generative AI-driven approach has enabled us to identify a promising target that modulates multiple fibrotic pathways, and we have developed a promising small molecule candidate that we believe could represent a novel, clinically differentiated therapy.

Our Core Product, ISM001-055, serves as an important demonstration of Pharma.AI's ability to accelerate drug development timelines and reduce costs. It took approximately 30 months to advance ISM001-055 from disease hypothesis formulation to Phase I clinical trials. We were able to achieve this efficiency by relying on the end-to-end integration of our AI-driven drug development process.

DRUG CANDIDATES

We have leveraged our Pharma.AI platform and strategically designed and developed diversified pipeline programs with a therapeutic footprint in fibrosis, oncology, immunology and other therapeutic areas. We chose these disease areas because these areas have huge unmet medical needs and a high amount of available patient omics data, allowing us to fully utilize our PandaOmics target discovery AI engine to identify novel targets with high confidence. Our pipeline includes one clinical-stage asset in Phase II studies, two clinical-stage assets in Phase I studies, ten preclinical assets and multiple early discovery stage assets as of the Latest Practicable Date. The following chart summarizes the development status of our clinical-stage drug candidates and selected preclinical-stage drug candidates as of the Latest Practicable Date.



Abbreviations: TNIK = TRAF2 and NCK interacting kinase; PHD1/2 = prolyl hydroxylase domain-1/2; QPCTL = glutaminyl-peptide cyclotransferase-like; $3CL^{pro}/M^{pro}$ = 3-chymotrypsin-like protease; USP1 = ubiquitin specific peptidase 1; MAT2A = methionine adenosyltrasnferase 2α; DGKA = diacylglycerol kinase alpha; KAT6 = K (lysine) acetyltransferase 6; ENPP1 = ectonucleotide pyrophosphatase / phosphodiesterase 1; CDK12 = cyclin dependent kinase 12; c-MYC = c-myelocytomatosis oncogene product; EMT = epithelial-mesenchymal transition; FMT = fibroblast-to-myofibroblast transition; EPO = erythropoietin; BRCA = breast cancer gene; MTAP = methylthioadenosine phosphorylase; ER = estrogen receptor; HER2 = receptor tyrosine-protein kinase ErbB-2; TEAD = transcriptional enhanced associate domain

Notes:

(1) FDA granted ISM001-055 the orphan drug designation for its IPF indication.

(2) The discovery stage includes drug target identification, hit identification, hit-to-lead optimization and lead optimization. Discovery and IND-enabling studies are preclinical studies.

(3) We entered into an agreement with Fosun in November 2021 to co-develop drug candidate against the drug target QPCTL. Preclinical data presented in this Document are generated by our research service suppliers under our direction without the participation of Fosun. We take the leading role for the clinical development of drug candidates for QPCTL through Phase I trial, with the roles of each party for the development of QPCTL from Phase II trial to be negotiated after Phase I trial completion. For additional information, see "Business — Material Collaboration and Licensing Arrangements — Collaboration with Fosun."

(4) As of the Latest Practicable Date, we have three on-going clinical trials for our drug candidates ISM001-055, ISM3091 and ISM3312. For additional information regarding our on-going clinical trials, see "Business — Clinical and IND-enabling Stage Candidates."

(5) All programs are designed for oral administration unless otherwise indicated.

Core Product

Our Core Product, ISM001-055, is a potent and selective small molecule inhibitor of TNIK with high affinity as a potential treatment of IPF, which is a fatal lung disease characterized by distorted lung architecture and consequent respiratory failure. The results of the completed Phase I clinical trial in New Zealand demonstrated good safety, tolerability and PK data of ISM001-055 in healthy volunteers. The results of a completed Phase I clinical trial in China also demonstrated similar encouraging safety and tolerability of ISM001-055 in healthy volunteers. We initiated the China Phase IIa clinical trial under the NMPA umbrella approval in April 2023. We filed an IND application with the FDA for the Phase IIa trial in the U.S. in February 2023 and received the FDA IND approval in June 2023. After successfully completing a Phase IIa study, we intend to initiate Phase IIb and Phase III studies for ISM001-055 for the IPF indication. Furthermore, ISM001-055 received orphan drug designation from the FDA in February 2023, qualifying us for incentives including a potential seven-year market exclusivity after approval. For more details, see "Business — Clinical and IND-enabling Stage Candidates — Core Product ISM001-055: A Small Molecule Inhibitor of TNIK for the Potential Treatment of IPF — Material Communications with Competent Authorities."

Other Clinical or IND-Enabling Stage Candidates

- ISM3091, also known as ISM025-034, is an orally available small molecule inhibitor of USP1 with the potential to treat tumors with homologous recombination deficiency ("**HRD**").

- ISM3312, also known as ISM036-076, is an orally available, irreversible covalent inhibitor of $3CL^{pro}/M^{pro}$, also called 3CL protease or main protease ("**M^{pro}**"), which is a conserved cysteine protease and an essential enzyme for the replication of acute respiratory syndrome coronavirus 2 ("**SARS-CoV-2**"), the causative agent of COVID-19.

- ISM8207, also known as ISM004-1057D, currently co-developed in partnership with Fosun, is a first-in-class orally available small molecule inhibitor of QPCTL, a regulator of the CD47-SIRPα axis, as cancer immunotherapy.

- ISM4808, also known as ISM012-077, is an oral small molecule inhibitor of PHD1/2 for the potential treatment of anemia of chronic kidney disease ("**CKD**"). CKD is a condition characterized by a gradual loss of kidney function to filter wastes from the blood system over time.

- ISM5411, also known as ISM012-042, is an oral, gut-restricted small molecule inhibitor of PHD1/2 for the treatment of Inflammatory Bowel Disease ("**IBD**").

- ISM6331 also known as ISM041-141b, is a small molecule pan-TEAD1/2/3/4 inhibitor that works by blocking the transcriptional activity of the TEAD-Yes-associated protein/transcriptional co-activator ("**YAP/TAZ**") complex for the treatment of Hippo pathway dysregulated solid tumors.

- ISM5939 also known as ISM033-154, is a potent, orally available, competitive small molecule inhibitor that targets ENPP1 as a potential cancer therapy.

- ISM5043, also known as ISM024-148, is a novel oral small molecule KAT6 inhibitor. The inhibition of KAT6 can block estrogen receptor α ("**ERα**") at a transcriptional level, which potentially provides novel therapies for ER+ breast cancer patients.

- ISM3412, also known as ISM020-345, is a potential best-in-class, orally available small molecule inhibitor of MAT2A, a synthetic lethality target in MTAP deleted, or $MTAP^{-/-}$, cancers.

- ISM4312A, also known as ISM034-145, is a novel oral small molecule DGKA inhibitor for the potential treatment of solid tumors.

ADDRESSABLE MARKETS AND COMPETITIVE LANDSCAPE

Our Core Product ISM001-055, is designed to treat IPF, a chronic disease that causes scarring of the lungs. According to Frost & Sullivan, the number of new cases of IPF worldwide increased from 534.3 thousand in 2017 to 575.1 thousand in 2021, at a CAGR of 1.9%. This is due to the increasing rate of aging populations, increasing awareness and diagnosis of this life-threatening condition and unhealthy lifestyles. The number of new cases is expected to continue increasing to 619.3 thousand in 2025 and to 685.2 thousand in 2030, with a CAGR of 1.9% and 2.0% from 2021 to 2030, according to Frost & Sullivan. Currently, there are only two drugs approved worldwide for the treatment of IPF, pirfenidone and nintedanib, both initially approved in 2014. Both are available in the U.S., EU and China. According to Frost & Sullivan, the global IPF drug market is expected to grow from US$1.7 billion in 2017 to US$3.3 billion in 2021, a CAGR of 17.4%. It is expected to reach US$5.0 billion by 2025 and US$7.1 billion by 2030, representing CAGRs of 11.1% and 7.3%, respectively.

Although currently available drug treatments for IPF are extremely limited, numerous drugs are currently in clinical trials for the treatment of IPF. These drugs use a variety of mechanisms of action and treatment modalities. Below is the current competitive landscape of IPF approved products and advanced clinical candidates.

Global Competitive Landscape for IPF

Approved Drugs					
Generic Name	**Brand Name**	**Company**	**Approved Date**	**Drug Target**	**Approved Region**
pirfenidone	Esbriet®	Roche/ Genentech	2014-10-15	MAPK12	FDA, EMA, PMDA
nintedanib	OFEV®	Boehringer Ingelheim	2014-10-15	MAPK12	FDA, EMA, NMPA, PMDA

In Development							
Drug Name	**Company**	**Indication**	**Target**	**Phase**	**Trial Start**	**Trial Status**	**Expected/ Actual Enrollment**
INS018_055	Insilico medicine	IPF	TNIK	Phase IIa	2023-04	Not Yet Recruiting	60
BI 1015550	Boehringer Ingelheim	IPF	PDE4B	Phase III	2022-09	Recruiting	963
Lansoprazole	Norfolk and Norwich University Hospitals NHS Foundation Trust, Norwich Clinical Trials Unit	IPF	H+/K+ ATPase	Phase III	2021-06	Recruiting	298
HZN-825	Horizon Therapeutics Ireland DAC	IPF	LPA -1 receptor	Phase II	2021-08	Recruiting	135
HEC585	Sunshine Lake Pharma Co., Ltd.	IPF	TGFβR1	Phase II	2021-06	Recruiting	270
PLN-74809	Pliant Therapeutics, Inc.	IPF	Integrin avb1 Integrin avb6	Phase II	2020-03	Completed	120
ZSP1603	Guangdong Raynovent Biotech Co., Ltd	IPF	pHPFs	Phase I/II	2021-10	Recruiting	36

Sources: Clinicaltrials.gov, Frost & Sullivan Report
Note: Novel targets include targets with less than 10 cumulative pipeline candidates that have undergone clinical trials.

OUR STRENGTHS

We believe that the following competitive strengths help differentiate us from our competitors:

- Proven end-to-end generative AI-driven platform designed to integrate biology, chemistry and clinical development;

- A potentially first-in-class anti-fibrotic drug candidate with clinical differentiation;

- Comprehensive and diversified pipeline targeting multiple therapeutic areas with huge unmet medical needs and market potential;
- Disruptive and scalable AI technology enabling the acceleration of our pipeline development;
- Pioneers of generative AI for drug discovery and development;
- Unique dual CEO structure increasing focus on technological innovation and R&D execution; and
- A global organization with strong validation from the biopharma industry and backed by renowned investors.

OUR STRATEGIES

Our goal is to discover and develop drugs expeditiously and at lower cost by leveraging the power and breadth of our generative AI technology platform, augmented by our team's experience in drug discovery and development. Our vision is to harness the power of our platform in target discovery, *de novo* synthesis of drugs and clinical trial optimization to develop novel therapies targeting unmet need. Our strategies for achieving those objectives are:

- Advance the development of our first-in-class drug candidate for the treatment of IPF while pursuing additional fibrosis indications;
- Advance our pipeline in a rapid, focused and efficient manner;
- Execute on our collaboration strategy to create value for stakeholders;
- Invest in the continual innovation of our Pharma.AI platform; and
- Continue to attract, nurture and retain skilled talent.

RESEARCH AND DEVELOPMENT

As an AI-driven biotechnology company with a mission to accelerate drug discovery and development, we place a strong emphasis on our R&D processes. Leveraging the unique advantages of our generative AI-driven platform, we are targeting drug development opportunities that address high unmet need. As of the Latest Practicable Date, we have efficiently built a diversified pipeline consisting of 31 programs across 29 drug targets with a therapeutic footprint in fibrosis, oncology, immunology and other therapeutic areas. In 2022, we nominated nine preclinical candidates and were able to generate revenues to support internal R&D. In addition, we collaborate with CRO partners to augment our in-house R&D.

Our AI-driven Pharma.AI platform, consisting of Biology42, Chemistry42 and Medicine42, is designed to be integrated across the drug discovery and development process to efficiently identify novel drug targets, design *de novo* molecules against both novel and known targets and optimize clinical development. Our R&D team utilizes our PandaOmics platform's target identification and business intelligence capabilities to discover novel targets for disease indications with attractive market potential. They then utilize the generative-AI capabilities of our Generative Chemistry application to generate small molecules with good physicochemical properties targeting these novel targets. Finally, the inClinico application is used to assist in optimizing clinical trial design using data from prior clinical trials and clinical trial protocols.

Our R&D team is uniquely comprised of two teams specializing in therapeutics pipeline development and AI-platform development. Our therapeutics pipeline development team is headed by our co-CEO, Mr. Feng Ren, Ph.D., a pharmaceutical industry veteran, and includes the Drug Discovery and Clinical Operations & CRO Management teams. The therapeutics pipeline development team streamlines and guides the drug discovery process and manages relationships with CROs and CDMOs. We have set up an expert CRO management system focused on speed, quality and accuracy with direct local supervision, with dedicated managers for over 40 CROs and CDMOs. Our AI-platform development team is headed by our

CEO, Mr. Alex Zhavoronkov, Ph.D., who is a leading expert in the field of AI drug discovery, and includes the AI and Chemo- and Bioinformatics teams. The AI-platform development team supplies the expertise for the application of our AI-platform toward the identification and validation of novel targets and molecules and helps us to continually refine and improve our algorithms. Our dual-team structure allows us to develop specialized expertise on both the AI drug discovery front and the therapeutic pipeline development front, creating the enhanced efficiencies that have allowed us to rapidly expand our product pipeline.

We are investing in a next-generation robotics laboratory that combines automation technology, laboratory management system and AI technology to create a fully automated laboratory integrating cell culture, compound management, high-throughput screening, high-connotation imaging and other functions. The platform provides three capabilities: (i) target discovery and target verification, including a synthetic lethality target discovery platform, a phenotype-based target discovery platform and an age-related disease target discovery platform; (ii) drug development and translational medicine, including target validation and acceleration of certain preclinical activities; and (iii) algorithm validation, by generating results predicted by multiple omics data verification algorithms.

INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we held 259 patents and patent applications. The following table sets forth an overview of our material granted patents and filed patent applications in connection with our Core Product as of the Latest Practicable Date.

Product	Name of patent[(1)]	Jurisdiction	Status	Patent expiration[(2)]	Market commercial rights of the Group
ISM001-055	Kinase Inhibitors	U.S., EPO, China, Japan, Hong Kong, Taiwan	pending	–	Full ownership
	Methods of Inhibiting Kinases	U.S., Taiwan	pending	–	Full ownership
	Analogs for The Treatment of Diseases	U.S.	granted	2042/2/23	Full ownership
		PCT, Taiwan, Argentina, U.S.	pending	–	Full ownership
	Analogs for The Treatment of Diseases	PCT	pending	–	Full ownership
	Methods of Manufacturing Kinase Inhibitors	PCT	pending	–	Full ownership

Abbreviations: PCT = Patent Cooperation Treaty; EPO = European Patent Office
Notes:

(1) Unless otherwise indicated, the patent for applications within the same product is the same and is therefore disclosed once.

(2) The patent expiration date is estimated based on current filing status, without taking into account any possible patent term adjustments or extensions and assuming payment of all appropriate maintenance, renewal, annuity and other government fees.

We conduct our business under the brand name "Insilico Medicine" and "英矽智能." As of the Latest Practicable Date, we held 70 trademarks and trademark applications and five registered software copyrights. We are also the registered owner of 56 domain names. During the Track Record Period and up to the Latest Practicable Date, we have not been involved in any proceedings in respect of, and we have not received notice of any claims of infringement of, any intellectual property rights that may be threatened or pending, in which we may be a claimant or a respondent.

MATERIAL COLLABORATION AND LICENSING ARRANGEMENTS

Collaboration with Fosun

In November 2021, we entered into a Drug Discovery and Development Collaboration Agreement (as amended and supplemented from time to time, "**Fosun Agreement**"), with Fosun. The Fosun Agreement engages us to provide certain services for a series of drug discovery and development programs and establishes collaboration with Fosun on a QPCTL-related development program, in each case, to apply our expertise and technology to the design, discovery, optimization and development of small molecule compounds that directly bind to and modulate certain biological targets in humans.

Under the Fosun Agreement, we agreed to deploy our technology and expertise to conduct up to four drug discovery and development programs (as may be adjusted according to the Fosun Agreement, each a "**Discovery Program**") for discovery targets jointly determined by the parties. We are responsible for carrying out such Discovery Programs and generating compounds that meet pre-specified criteria. Fosun has agreed to pay us an aggregate project initiation fee of up to US$6.0 million at US$1.5 million per Discovery Program. In addition, Fosun will make to us, on a Discovery Program-by-Discovery program basis, additional payments upon the completion of certain R&D and regulatory approval milestones. In aggregate, we are entitled to receive up to US$24 million, not including fees or reimbursements due to us for the creation of a substitute discovery program, in consideration for our performance relating to the Discovery Programs. As of the Latest Practicable Date, we received a total payment US$6.0 million from Fosun for the Discovery Programs.

Under the Fosun Agreement, we also agreed to work with Fosun on the discovery and development of compounds for the drug target QPCTL through Phase I completion, for which we will take the leading role. We and Fosun will share on an equal basis all research and development costs within the agreed budget through the completion of the Phase I trial.

With respect to the QPCTL program, Fosun has agreed to make an upfront payment of US$7.0 million in project initiation fee. In addition, Fosun has agreed to pay us additional fees upon the achievement of certain R&D, clinical trial and regulatory approval milestones. In aggregate, we are entitled to receive up to US$58 million in consideration for our performance relating to the QPCTL program. As of the Latest Practicable Date, we received a total payment of US$10.4 million from Fosun for the QPCTL program.

Each party owns an equal, undivided interest in any intellectual property that results from the collaboration of the QPCTL project. For the other drug discovery and development programs, Fosun is the sole owner of any intellectual property that results from those drug discovery and development programs, provided that the applicable project initiation fees are made.

For more details, see "Business—Material Collaboration and Licensing Arrangements—Collaboration with Fosun."

Collaboration with Sanofi

In October 2022, we entered into a Collaboration and License Agreement ("**Sanofi Agreement**"), with Genzyme Corporation, a wholly owned subsidiary of Sanofi. Under the Sanofi Agreement, Sanofi and we shall

collaborate to carry out a research program to accelerate the identification of development candidates toward each collaboration target, including the conducting of research activities in accordance with the research plan for each collaboration target. A Joint Research Committee ("**JRC**"), composed of equal representatives appointed by each party, will oversee and coordinate the collaboration between the parties, with Sanofi having final decision-making authority with respect to all matters within the responsibilities of the JRC (subject to certain enumerated limitations to such authority).

Once a collaboration target is designated, we shall prepare a research plan for approval by the JRC. We will provide written reports and supporting data and information to Sanofi on compounds that meet pre-specified criteria relating to the collaboration targets. Sanofi will have the right to perform, at Sanofi's cost, chemistry, manufacturing and control activities and, as applicable, other research activities under the research plan, and shall notify us regarding whether Sanofi elects to designate any research compound to be progressed to clinical drug development activities. Sanofi will have the sole and exclusive right to control all clinical drug development activities and any regulatory matters, including any filings, correspondence and communication of regulatory materials with regulatory authorities, and have the exclusive right to commercialize and have exclusive control over the commercialization of the compounds.

Under the Sanofi Agreement, Sanofi has agreed to make various payments to us, including but not limited to, an upfront payment, royalty payments and milestone payments. Sanofi has agreed to make mid-single to low double-digit tiered royalties to us for any products developed. Sanofi shall pay us aggregate upfront and target nomination fees of up to US$21.5 million for up to six targets. Sanofi will make additional payments to us upon the achievement of various research, development and sales milestones. These payments could total up to US$1.2 billion, comprising up to US$111.0 million for research milestones, up to US$492.0 million for development and regulatory milestones and up to US$600.0 million for sales milestones. In addition, upon the achievement of specific preset thresholds for a product's annual net sales, Sanofi shall make royalty payments to us calculated as a certain percentage of that product's annual net sales. The tiered royalty rate increases as the product's annual net sales increases, with the rate ranging from single-digit percentages to low double-digit percentages. As of the Latest Practicable Date, we received total upfront and milestone payments of US$12.5 million from Sanofi.

For more details, see "Business—Material Collaboration and Licensing Arrangements—Collaboration with Sanofi."

CUSTOMERS

During the Track Record Period, the total revenue generated from our five largest customers amounted to US$2.5 million and US$27.3 million in 2021 and 2022, respectively. Our fifth and sixth largest customers in 2021 shared identical sales amounts and percentages of revenues. Our five largest customers in 2021 and 2022 together accounted for 53.2% and 90.6%, respectively, of our total revenues during those periods, and our largest customer accounted for 14.3% and 56.6%, respectively, of our total revenues during those periods. We normally grant a credit term of 30 days to 60 days to our customers. None of our five largest customers is a supplier to us.

To the best of our knowledge, all of our five largest customers during the Track Record Period are independent third parties. None of our Directors, their respective associates or, to the best of our knowledge, any shareholder who owned more than 5% of our issued share capital as of the Latest Practicable Date, had any interest in any of our five largest customers during the Track Record Period.

SUPPLIERS

During the Track Record Period, we primarily synthesized and tested our drug candidates from industry-leading and highly reputable CROs. Our purchases mainly included third-party contracting services for preclinical evaluation and clinical trials of our drug candidates, regents and consumables, machines and

equipment and professional service. The purchases (including assets and services but excluding auditor services) from our five largest suppliers in the aggregate amounted to US$21.2 million and US$42.6 million in 2021 and 2022, respectively. In 2021 and 2022, our five largest suppliers in the aggregate accounted for 58.2% and 49.5%, respectively, of our total purchases during those periods, and our largest supplier accounted for 35.5% and 24.0%, respectively, of our total purchases (including value-added tax) during those periods.

CRO A is a related party to us, because its affiliates own more than 5% of our issued share capital. Except CRO A, to the best of our knowledge, all our other five largest suppliers during the Track Record Period were independent third parties. None of our Directors, their respective associates or any shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, had any interest in any of our five largest suppliers during the Track Record Period.

OUR [REDACTED] INVESTORS

Since the establishment of our Group, we have entered into several rounds of financing agreements with our **[REDACTED]** Investors. Our **[REDACTED]** Investors mainly consist of private equity and venture capital funds and other investment entities, some of whom have a specific focus on the healthcare industry. Qiming Venture Partners and Lilly Asia Ventures, being two of our **[REDACTED]** Investors, are Sophisticated Investors identified pursuant to Guidance Letter HKEX-GL92-18 issued by the Stock Exchange. For details, see "History, Reorganization and Corporate Structure—**[REDACTED]** Investments—Information about the **[REDACTED]** Investors" for further details on the identity and background of our **[REDACTED]** Investors.

SUMMARY OF KEY FINANCIAL INFORMATION

Summary of Our Consolidated Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth our consolidated statements of profit or loss and other comprehensive income with line items in absolute amounts for the periods indicated.

	For the year ended December 31,	
	2021	2022
	US$	US$
	(in thousands)	
Revenue	**4,713**	**30,147**
Cost of services	–	(11,037)
Gross profits	**4,713**	**19,110**
Other income	5	275
Other gains and losses, net	(81,691)	(141,875)
Impairment losses under expected credit loss model, net of reversal	(34)	(234)
Selling and marketing expenses	(1,293)	(5,375)
Research and development expenses	(38,489)	(78,175)
Administrative expenses	(13,680)	(15,442)
Finance costs	(36)	(99)
Loss before tax	**(130,505)**	**(221,815)**
Income tax expense	–	(13)
Loss for the year	(130,505)	(221,828)
Other comprehensive (expense) income	(27)	794
Total comprehensive expenses for the year	**(130,532)**	**(221,034)**

During the Track Record Period, we generated revenue from drug discovery services and software solution services. We expect to continue to generate most of our revenue from such sources and expand our revenue sources upon the commercialization of approved drugs.

Revenue from our drug discovery services was derived from our research and development collaborations, including payments from upfront payments and other success-based development milestones. For the collaboration arrangements and drug discovery projects with pharmaceutical companies, we were mainly engaged to utilize our AI-driven drug discovery platform to identify potential drug candidates with desired drug-like properties.

Revenue from our software solution services was derived from subscription fees related to licensing components of our proprietary generative AI platforms, namely Biology42, Chemistry42 and Medicine42. We granted our customers access to our AI-driven proprietary drug discovery software on a subscription basis and collected upfront subscription fees. The subscriptions typically have one year terms with clients having the right to renew their subscription.

During the Track Record Period, our cost of services mainly consisted of third-party contracting costs and labor costs in relation to drug discovery services. The drug discovery services and internal research and development activities are both performed by our research and development specialists. In 2021, the costs related to drug discovery services were small in scale. In 2022, our external services significantly increased. Therefore, we recorded cost of services of nil and US$11.0 million in 2021 and 2022, respectively, and will continue to record cost of services going forward. Third-party contracting costs include fees paid to CROs pursuant to services agreements we have entered into with them. For details on our CRO services agreements and fees paid thereunder, see "Business—Research and Development—Collaboration with CROs." Labor costs primarily include salaries, welfare and pension costs for our research and development employees.

During the Track Record Period, we recorded cost of sales of nil for our software solution services. Our software research and development specialists spend the majority of their time devoted to internal research and development activities and continuously upgrading and training our AI software platform. Therefore, these costs were included in our research and development expenses. We recorded cost of services of nil for our drug discovery service in 2021 because the costs related to drug discovery services were small in scale.

Our research and development expenses increased from US$38.5 million for 2021 to US$78.2 million for 2022, which was primarily attributable to the increase in third-party contracting costs paid to CROs and CDMOs from US$27.6 million in 2021 to US$53.8 million in 2022 and the increase in labor costs from US$7.8 million in 2021 to US$16.0 million in 2022 which is in line with the expansion of our pipeline. Our research and development expenses incurred for our Core Product were US$3.6 million and US$9.3 million in 2021 and 2022, respectively.

For more details, see "Financial Information — Description of Selected Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income."

Summary of Our Consolidated Statements of Financial Position

The following table sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from the Accountants' Report set out in Appendix I to this Document.

	As of December 31, 2021	As of December 31, 2022
	US$	US$
	(in thousands)	
Total non-current assets	3,972	16,035
Total current assets	165,191	218,751
Total assets	**169,163**	**234,786**
Total current liabilities	410,362	682,488
Total non-current liabilities	442	1,841
Total liabilities	**410,804**	**684,329**
Capital and reserves		
Treasury share	(11,462)	(11,346)
Share premium and reserves	(230,179)	(438,197)
Total deficit	**(241,641)**	**(449,543)**

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31, 2021	As of December 31, 2022	As of April 30, 2023
	US$	US$	US$
		(in thousands)	*(unaudited)*
Current assets			
Trade and other receivables	3,650	10,868	8,654
Bank balances and cash	161,541	207,883	173,257
Total current assets	165,191	218,751	181,911
Current liabilities			
Trade and other payables	5,796	18,495	10,112
Amount due to a related party	2,582	8,422	9,570
Lease liabilities	666	1,382	1,418
Financial liabilities at FVTPL	401,140	648,978	648,978
Contract liabilities	178	5,211	5,787
Total current liabilities	410,362	682,488	675,865
Net current liabilities	**245,171**	**463,737**	**493,954**

We had net current liabilities of US$494.0 million as of April 30, 2023, compared to net current liabilities of US$463.7 million as of December 31, 2022. The change was primarily due to a decrease in bank balances and cash from US$207.9 million to US$173.3 million and an increase in amount due to a related party from US$8.4 million to US$9.6 million, which was offset by a decrease in trade and other payables from US$18.5 million to US$10.1 million.

We had net current liabilities of US$463.7 million as of December 31, 2022, compared to net current liabilities of US$245.2 million as of December 31, 2021. The change was primarily due to an increase in financial liabilities at FVTPL from US$401.1 million to US$649.0 million and an increase in trade and other payables from US$5.8 million to US$18.5 million, which was partially offset by an increase in bank balances and cash from US$161.5 million to US$207.9 million.

For more details, see "Financial Information — Discussion of Certain Selected Items From the Consolidated Statements of Financial Position."

Summary of Our Consolidated Statements of Cash Flows

The following table sets forth summary data from our consolidated statements of cash flows for the periods indicated.

	For the year ended December 31,	
	2021	2022
	US$	US$
	(in thousands)	
Loss for the year	(130,505)	(221,828)
Operating cash flows before movements in working capital	(41,922)	(65,135)
Changes in working capital	3,852	17,618
Net cash used in operating activities	**(38,070)**	**(47,517)**
Net cash used in investing activities	**(1,051)**	**(13,580)**
Net cash from financing activities	**179,409**	**107,148**
Net increase in cash and cash equivalents	140,288	46,051
Effect of foreign exchange rate changes	(171)	291
Cash and cash equivalents	**161,541**	**207,883**

Our net cash used in operation activities was US$38.1 million and US$47.5 million for 2021 and 2022, respectively. During the Track Record Period, we incurred negative cash flows from our operations, and substantially most of our operating cash outflows have resulted from our research and development activities.

During the Track Record Period, we derived our cash inflows from financing activities primarily from issue of convertible redeemable preferred shares. Our management closely monitors the use of cash and cash balances and has maintained a healthy liquidity for our operations. As our business develops and expands, we expect to generate more cash flow from our operating activities through launching and commercializing our products and enhancing our cost containment capacity and operating efficiency.

Our cash burn rate refers to the average monthly net cash used in operating activities and capital expenditures. We had cash and cash equivalents of US$207.9 million as of December 31, 2022. We estimate that we will receive **[REDACTED]** of approximately HK$**[REDACTED]** after deducting the **[REDACTED]** and expenses payable by us in the **[REDACTED]**, assuming no **[REDACTED]** is exercised and assuming an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**, being the low-end of the indicative **[REDACTED]** range of HK**[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]** in this Document. Assuming an average cash burn rate going forward of [2.0] times the level in 2022, we estimate that our cash and cash equivalents as of December 31, 2022 will be able to maintain our financial viability for [21] months or, if we take into account the estimated **[REDACTED]** from the **[REDACTED]**, **[REDACTED]**. We will continue to monitor our cash flows from operations closely and expect to raise our next round of financing, if needed, with a minimum buffer of 12 months.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratio of our Group as of the dates indicated.

	As of December 31,	
	2021	2022
	%	%
Current ratio	40.3	32.1

Note: Current ratio equals current assets divided by current liabilities as of the end of the year/period.

Our current ratio was 32.1% for 2022. Our current ratio decreased for 2022 compared to that for 2021, primarily due to an increase in trade and other payables and amount due to a related party and contract liabilities.

[REDACTED] FOR [REDACTED] ON THE STOCK EXCHANGE

We have applied to the Stock Exchange for the **[REDACTED]** of, and permission to deal in, the Shares in issue and to be issued pursuant to (i) the **[REDACTED]**, including the Shares which may be issued pursuant to the exercise of the **[REDACTED]**, and (ii) the Shares to be issued under the **[REDACTED]** Equity Incentive Plans.

No part of our Company's share or loan capital is **[REDACTED]** on or traded on any other stock exchange and no such **[REDACTED]** or permission to trade is being or proposed to be sought in the near future. All **[REDACTED]** will be registered on the **[REDACTED]** of our Company in order to enable them to be **[REDACTED]** on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any **[REDACTED]** will be invalid if the **[REDACTED]** of and permission to **[REDACTED]** the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the **[REDACTED]**, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

[REDACTED]

[REDACTED]

DIVIDEND

No dividend has been paid or declared by our Company since its date of incorporation and up to the end of the Track Record Period. Any declaration and payment as well as the amount of dividends will be subject to our Memorandum of Association and the Cayman Companies Act. The declaration and payment of dividends in the future will be determined by our Board of Directors, in its discretion, or the Shareholders in a general meeting, and will depend on a number of factors, including our earnings, capital requirements, and overall financial condition. As advised by our Cayman counsel, under the Cayman Companies Act, a Cayman Islands company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business (i.e. the solvency test as provided in the Cayman Companies Act). As advised by our Cayman counsel, the financial position of accumulated losses does not prohibit us from declaring and paying dividends to our Shareholders, as dividends may still be declared and paid out of our share premium account notwithstanding our profitability, provided that we satisfy the solvency test set out in the Cayman Companies Act. There is no assurance that dividends of any amount will be declared to be distributed in any year.

USE OF [REDACTED]

We estimate that the aggregate **[REDACTED]** to our Company from the **[REDACTED]** (after deducting **[REDACTED]** and estimated expenses in connection with the **[REDACTED]** payable by us and assuming that the **[REDACTED]** is not exercised and an **[REDACTED]** of HK$**[REDACTED]** per Share) will be approximately HK$**[REDACTED]**. We currently intend to apply such **[REDACTED]** for the following purposes:

- Approximately HK$**[REDACTED]** (or approximately **[REDACTED]**% of the **[REDACTED]**) to fund further clinical research and development of our Core Product, ISM001-055;
- Approximately HK$**[REDACTED]** (or approximately **[REDACTED]**% of the **[REDACTED]**) to fund the research and development of our other pipeline drug candidates;
- Approximately HK$**[REDACTED]** (or approximately **[REDACTED]**% of the **[REDACTED]**) for the further development and expansion of our robotics lab;
- Approximately HK$**[REDACTED]** (or approximately **[REDACTED]**% of the **[REDACTED]**) for development of new generative AI models and the associated validation work; and
- Approximately HK$**[REDACTED]** (or approximately **[REDACTED]**% of the **[REDACTED]**) will be used for working capital and other general corporate purposes.

For further details, see "Future Plans and Use of **[REDACTED]**."

RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. For further details about these risks, see "Risk Factors." Some of the major risks we face include:

- Our future growth depends substantially on the success of our product candidates. If we are unable to successfully complete their clinical development, obtain their regulatory approvals or achieve their commercialization, or if we experience significant delays in doing any of the foregoing, our business will be materially harmed.

- Clinical development involves a lengthy and expensive process with uncertain outcomes. If our preclinical studies and clinical trials are not sufficient to support regulatory approval of any of our drug candidates, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development of such drug candidates.

- Our commercial success depends on our end-to-end AI technology platform and technological capabilities. If we fail to continuously improve our technology and provide innovative solutions that achieve and maintain the market acceptance of our platform and technological capabilities, our business, financial condition and results of operations may be materially and adversely affected.

- We have entered into collaborations with our partners and may form or seek additional collaborations or strategic alliances or enter into additional licensing arrangements in the future. We may not realize any or all of the benefits of such alliances or licensing arrangements, and disputes may arise between us and our strategic collaboration partners which could adversely affect our business operations and financial condition.

- The regulatory approval processes of the FDA, the NMPA, the EMA, the Medsafe, the TGA and other comparable regulatory authorities are lengthy, time-consuming and inherently unpredictable. If we are ultimately unable to obtain, or experience material delays in obtaining, regulatory approval for our product candidates, our business will be substantially harmed.

- Changes in government regulations or in practices relating to the biopharmaceutical industry may adversely affect our business.

- We may face difficulties in managing the growth of our business and our expansion plans and operations or implementing our business strategies on schedule.

- Our international operations and expansion are subject to various risks.

- Our patent portfolio comprises a significant portion of patent applications. If we are unsuccessful in obtaining or maintaining patent or other adequate intellectual property protection for one or more of our technologies or product candidates due to any failure to grant our patent applications or licensed patent applications and/or issued patents covering one or more of our technologies or product candidates are found invalid or unenforceable if challenged in court or before administrative bodies, third parties could develop and commercialize products and technologies similar or identical to ours and compete directly against us, and our ability to successfully commercialize any product or technology may be adversely affected.

- The approval, filing or other requirements of the CSRC or other PRC government authorities may be required under PRC laws.

[REDACTED]

The total **[REDACTED]** payable by our Company are estimated to be approximately HK$**[REDACTED]** assuming the **[REDACTED]** is not exercised and based on an **[REDACTED]** of HK$**[REDACTED]** (being the mid-point of our **[REDACTED]** range of HK$**[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**). These **[REDACTED]** mainly comprise legal and other professional fees paid and payable to the professional parties, **[REDACTED]** payable to the **[REDACTED]**, and printing and other expenses for their services rendered in relation to the **[REDACTED]** and the **[REDACTED]**.

For 2021 and 2022, we incurred **[REDACTED]** for the **[REDACTED]** of **[REDACTED]** and **[REDACTED]**, respectively. We estimate that additional **[REDACTED]** of approximately US$**[REDACTED]** (including **[REDACTED]**

[REDACTED] and other expenses, assuming the **[REDACTED]** is not exercised and based on the mid-point of our **[REDACTED]** range of HK$**[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**) will be incurred by us, approximately US$**[REDACTED]** of which is expected to be charged to our consolidated statements of profit or loss and approximately US$**[REDACTED]** of which is expected to be capitalized.

RECENT DEVELOPMENTS

Expected Loss

We expect that we will continue to incur a loss for 2023 due to (i) the anticipated costs associated with increased research and development activities and (ii) expenses in connection with the **[REDACTED]** incurred in 2023.

No Material Adverse Change

Our Directors confirm that up to the date of this Document, save as disclosed in this Document, there has been no material adverse change in our financial, operational or trading positions or prospects since December 31, 2022, being the end of the period reported on as set out in the Accountants' Report included in Appendix I to this Document.