



April 15, 2024

Healthcare|HOLD

Sector Update

## Bottom-fishing at the bottom of the business cycle

- C1Q24 was marked by liquidity crises in innovative drug and medical device, and depressed margin in digital health. We believe this is a buying opportunity;
- PD-1(L1) has recovered nicely in C2H23 and exceeded our expectation made for 2023. We forecast 20% YoY growth in 2024. Further, pipeline maturity has led to new drugs in autoimmune and metabolic drugs;
- Biosimilar has proven to be part of the solution to deal with low paying ability of Chinese healthcare and denial of access to the high paying US healthcare market. But biotech's must treat biosimilar as a transient solution;
- We believe there are three ways to benefit: (1) buy liquidity strapped biotech with promising pipelines, (2) buy proven players in biosimilars, (3) buy top quality biotech's at cycle-bottom valuations. Our TOP PICK remains Akeso. We also like RemeGen. We recommend to look at Henlius, Ascentage, LEPU, KeyMed and HutchMed. We cut JDHealth and ZLAB's TP and kept Innovent unchanged. We dropped coverage of AliHealth and JUNSHI.

### Finding liquidity strapped biotech's is a profitable strategy

At the time of our [initiation of Akeso](#) on October 2022, it only had six months of cash left but had a strong pipeline and a proven license-out track record. Since then, Akeso has turned profitable without resorting to external financing. Now, with the China's innovative drug reform (2018) and the inflow of overseas returnees running their courses, liquidity crises again stroke the innovative drug sector and the medical device sector. However, we believe companies with quality pipelines should be able to mitigate their liquidity crises. On January 25<sup>th</sup>, 2024, we [upgraded RemeGen](#) from SELL to BUY. We believe there are several companies undergoing liquidity crunches but with strong pipelines, including Ascentage and LEPU. Ascentage is China's small molecule leader with nine drugs in clinical, one of which in Phase III, five in Phase II and one already selling. LEPU is a leading ADC platform with three ADC's in Phase III, one of which was licenced to AstraZeneca.

### Low valuation has justification, but execution has bright spots

With fresh evidence of US intention to deny Chinese innovative drugs' access to the US market (Wuxi AppTec, etc.), there is reason to be pessimistic, but (TBC)

#### Key financial of stock mentioned

(Rmb or US\$ mn)	Revenues			Non-GAAP/IFRS op.profit			GAAP/IFRS NI		
	2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E
RemeGen Co.	1,049	1,862	1,832	(1,516)	(946)	(1,042)	(1,534)	(964)	(1,045)
Akeso Inc.	4,527	5,621	7,662	2,096	3,331	3,432	2,417	3,297	3,592
Innovent Bio	6,206	8,390	12,909	(1,105)	(1,427)	(463)	(1,028)	(1,736)	(1,399)
BeiGene (US\$)	2,459	3,087	4,770	(840)	(280)	679	(1,028)	(1,736)	(1,399)
JDHealth Int'l	53,530	68,714	77,757	2,548	4,479	5,461	2,143	3,191	5,013

Source Blue Lotus (2024/4/15)

BUY

HOLD

SELL

#### Top picks

	Ticker	Rating	Target
Akeso Inc.	9926 HK	BUY	HK\$60
RemeGen	9995 HK	BUY	HK\$34

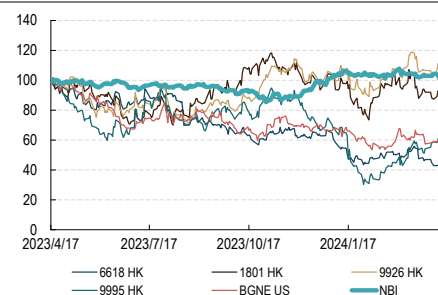
Source: Blue Lotus (2024/4/15)

#### Stocks mentioned

Name	BBG code	Rating	TP	Curr. price	Next y PB
Innovent Bio	1801 HK	SELL	HK\$24	37.35	NM
BeiGene Ltd.	BGNE US	BUY	US\$190	146.13	NM
Zai Lab	ZLAB US	SELL	US\$13	15.01	NM
Henlius Bio	2696 HK	NA	NA	HK\$15	NA
KeyMed	2162 HK	NA	NA	HK\$32	NA
Ascentage Pharma.	6855 HK	NA	NA	HK\$18	NM
LEPU Bio	2157 HK	NA	NA	HK\$4.6	NM
SHMP	2252 HK	NA	NA	HK\$13	NM
MedBot					
JDHealth	6618 HK	BUY	HK\$42	24.45	17.3
HUTCHMED	HCM US	NA	NA	US\$18	NA
Baili Pharma	688506 CH	NA	NA	Rmb 130	NA
Legend Bio	LEGN US	NA	NA	US\$55	NA

Source: BLRI

#### Price performance and volume data



Source: Blue Lotus, (2024/4/15)

#### Research team

Tianli Wen

+852 21856112

research@blue-lotus.cn

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Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

# Financial Summary – RemeGen Co., Ltd.

Fiscal year ends December 31

## Exhibit 1. Income statement

(Rmb mn)	2023A	2024E	2025E
Revenues	1,049	1,862	1,832
Cost of sales	(253)	(413)	(513)
Gross profit	796	1,449	1,319
Operating expense	(2,395)	(2,506)	(2,453)
Selling and distribution expenses	(775)	(1,017)	(1,262)
Administrative expenses	(314)	(372)	(275)
Research and development expenses	(1,306)	(1,117)	(916)
Operating income (IFRS)	(1,599)	(1,057)	(1,134)
Other income and gains	111	147	147
Other expenses	(11)	(48)	(52)
Impairment losses on financial assets, net	(11)	-	-
Finance costs	(23)	(5)	(5)
Loss/Profit before income tax	(1,534)	(964)	(1,045)
Income tax expense	-	-	-
Profit/Loss for the year, IFRS	(1,534)	(964)	(1,045)
Loss/profit attr to SH	(1,534)	(964)	(1,045)
Loss per share	(3.43)	(1.70)	(1.81)

Source: RemeGen, Blue Lotus (2024/4/15)

## Exhibit 2. Balance sheet

(Rmb mn)	2023A	2024E	2025E
Property, plant and equipment	2,833	3,405	3,843
Right-of-use assets	252	490	652
Other intangible assets	24	39	46
Equity investments	96	-	-
Other non-current assets	94	207	239
Inventories	742	620	513
Trade and bills receivables	420	285	366
Prepayments	324	285	275
Pledged deposits	17	-	-
Cash and cash equivalents	727	1,351	1,505
Total assets	5,528	6,682	7,440
Trade and bills payables	139	310	257
Other payables and accruals	632	1,239	1,026
Lease liabilities	58	130	123
Deferred income	9	64	61
Other current liabilities	12	40	44
Lease liabilities	75	221	210
Deferred tax liabilities	2	-	-
Deferred income	37	109	104
Interest bearing borrowings	1,127	2,127	4,127
Total liabilities	964	2,113	1,825
Share capital	544	544	544
Treasury shares	(440)	(472)	(381)
Paid-in capital	-	-	-
Reserves	3,333	2,370	1,325
Total equities and liabilities	5,528	6,682	7,440

Source: RemeGen, Blue Lotus (2024/4/15)

## Company Description

RemeGen was founded in 2008 in Yantai, Shandong Province of China. It focuses on Antibody Drug Conjugate (ADC), Bispecific Antibody (BsAb) and Fusion Protein drugs in Autoimmune, Oncology and Ophthalmology. Its first drug Telitacicept (RC18), a fusion protein for Systemic Lupus Erythematosus (SLE) was approved in China in March 2021 and contributed 49% of revenues in 2023. Its 2<sup>nd</sup> drug, Disitamab Vedotin (RC48), an ADC for solid tumors, was approved in July 2021 in China and contributed 51% in 2023.

## Industry View

We estimate China's total biologics market to grow to US\$97bn in 2023 and will grow to US\$200 bn by the end of 2030. We expect that the global total biologics market to grow to US\$402 bn in 2023 and will reach US\$665 mn in 2030. We expect the global ADC market to grow from US\$8.1bn in 2022 to US\$23bn in 2030.

## Exhibit 3. Cash flow statement

(Rmb mn)	2023A	2024E	2025E
Pre-tax profit	(1,534)	(964)	(1,045)
Adjustment			
Finance costs	23	5	5
D&A	308	422	576
Share-based payment expenses	83	112	92
Increase in inventories	(219)	122	106
Decrease in bills receivable	(139)	136	(82)
Increase in prepayments,	(103)	39	10
Increase/(decrease) in trade and bills payables	(82)	170	(53)
Increase in other payables and accruals	46	607	(213)
(Increase)/decrease in pledged deposits	(101)	(17)	-
Others	(94)	257	(53)
Net cash used in operating activities	(1,812)	890	(657)
Purchases of items of PPE	(734)	(855)	(916)
Increase in pledged deposits	101	17	-
Others	(165)	(287)	(274)
Net cash used in investing activities	(798)	(1,125)	(1,190)
Proceeds from issue of common shares	-	-	-
Interest paid for bank borrowings	-	-	-
Others	-	-	-
Net cash used in financing activities	-	-	-
Net change in cash	(2,610)	(235)	(1,847)
Effects of foreign exchange rate changes	-	-	-
Cash and equivalent at beginning	2,069	587	1,351
Cash and equivalent at end	727	1,351	1,505

Source: RemeGen, Blue Lotus (2024/4/15)

See the last page of the report for important disclosures

## Financial Summary – Akeso Inc.

Fiscal year ends December 31

### Exhibit 4. Income statement

(Rmb mn)	2023A	2024E	2025E
Product sales	1,632	2,245	4,292
License fee income	2,923	3,500	3,500
Less: distribution cost	(28)	(124)	(130)
Revenue	4,527	5,621	7,662
Gross profit	4,394	5,419	6,635
Gross margin	1	1	1
Selling and marketing expenses	(890)	(1,010)	(1,824)
Administrative expenses	(200)	(215)	(230)
Research and development expenses	(1,254)	(1,144)	(1,532)
Other expenses	(473)	(289)	(135)
Share based compensation	(47)	(281)	(383)
Operating income (IFRS)	2,504	3,342	3,638
Operating margin, IFRS	55.3%	59.5%	47.5%
Operating income (non-IFRS)	2,096	3,331	3,432
Operating margin, non-IFRS	46.3%	59.3%	44.8%
Net income	2,417	3,297	3,592
EPS, diluted and basic	2.89	3.89	4.19

Source: Akeso, Blu Lotus (2024/4/15)

### Company Description

Akeso is about to transform from an IP-licensing biotech to a product sales-driven biopharma. Its products and pipeline focus on BsAb and mAb with 100% in-house ratio. Penpulimab (AK105), co-marketed with SinoBio, contributed 11% of product sales and 3.9% of total in 2023. Cadonilimab (AK104) contributed 83% of product sales and 30% of total revenue in 2022. Through its in-house ACE Platform and TETRABODY technology, Akeso has established a systematic process for drug development.

### Industry View

We estimate China's total biologics market to grow to US\$97bn in 2023 and will grow to US\$200 bn by the end of 2030. We expect that the global total biologics market to grow to US\$402 bn in 2023 and will reach US\$665 mn in 2030. We expect global PD-1/L1 market to grow from US\$43bn in 2023 to US\$79bn in 2030, in which China's PD-1/L1 market to grow from US\$2.7bn to US\$20bn.

### Exhibit 5. Balance sheet

(Rmb mn)	2023A	2024E	2025E
Non-current assets	3,504	3,349	3,929
PPE	2,824	2,868	3,014
Right of use assets	338	465	889
Intangible assets	6	7	16
Advance payments for PPE	336	10	10
Current assets	5,677	7,802	20,790
Inventories	392	707	3,080
Trade and bill receivables	296	674	1,073
Prepayments and other receivables	95	337	644
Bank balances and cash	1,542	3,585	13,493
Total assets	9,181	11,151	24,719
Current liabilities	1,205	954	4,522
Trade payables	355	51	2,054
Other payables and accrued exp.	444	882	2,430
Interest bearing borrowings	391	-	-
Lease liabilities	15	20	38
Non-current liabilities	3,458	2,889	3,975
Interest bearing borrowings	2,577	2,577	3,577
Deferred income	240	300	375
Total liabilities	4,662	3,843	8,497
Reserves	4,692	7,989	11,581
Non-controlling interest	-174	-681	4,640
Equities	4,519	7,308	16,221
Total liabilities and equities	9,181	11,151	24,719

Source: Akeso, Blu Lotus (2024/4/15)

### Exhibit 6. Cash flow statement

(Rmb mn)	2023A	2024E	2025E
Pretax profit, IFRS	2,417	3,297	3,592
Adjustment from operating activities	(259)	22	121
Adjustment from balance sheet			
Increase in inventories	(50)	(315)	(2,373)
Increase in trade-receivables	(25)	(378)	(399)
Increase in prepayments	62	(242)	(307)
Increase in trade payables	46	(304)	2,003
Increase in other payables	(156)	439	1,547
Increase in deferred income	80	60	75
Increase in contract liabilities	11	9	29
Cash used in/generated from operations	2,127	2,587	4,288
Income tax paid	0	0	0
Net cash used in operating activities	2,127	2,587	4,288
Interest received	76	26	69
Capex	(408)	(561)	(429)
Purchase of intangible assets	(7)	(10)	(21)
Proceeds from disposal of PPE	1	1	1
Decrease in pledged deposits	0	0	0
Net cash used in investing activities	(338)	(544)	(380)
New borrowings raised less repayment	1,000	0	1,000
Net cash used in financing activities	4,500	0	6,000
Cash and cash equivalents at the beginning	2,092	1,542	3,585
Effects of foreign exchange rate changes	0	0	0
Cash and cash equivalents at the end	1,542	3,585	13,493

Source: Akeso, Blu Lotus (2024/4/15)

See the last page of the report for important disclosures

## Financial Summary – Innovent Biologics, Inc.

Fiscal year ends December 31

### Exhibit 7. Income statement

(Rmb mn)	2023A	2024E	2025E
Revenue	6,206	8,390	12,909
Cost of sales	(1,136)	(1,635)	(2,313)
Gross profit	5,070	6,756	10,596
Gross margin	81.7%	80.5%	82.1%
Other income	552	500	400
Operating expense	(6,749)	(9,022)	(12,220)
Administrative expenses	(750)	(1,051)	(1,553)
Selling and marketing expenses	(3,101)	(4,195)	(5,164)
Royalty and other related payments	(671)	(839)	(1,671)
Share based compensation	(574)	(839)	(1,162)
Operating income (IFRS)	(1,046)	(1,766)	(1,225)
Operating margin	(16.9%)	(21.1%)	(9.5%)
Operating income (non-IFRS)	(1,105)	(1,427)	(463)
Operating margin	(17.8%)	(17.0%)	(3.6%)
Loss/Profit before income tax	(1,144)	(1,736)	(1,399)
Pre-tax margin	(18.4%)	(20.7%)	(10.8%)
Profit/loss for the year from continuing operations	(1,028)	(1,736)	(1,399)
EPS, diluted and basic	(0.66)	(1.11)	(0.89)

Source: Innovent, Blue Lotus (2024/4/15)

### Exhibit 8. Balance sheet

(Rmb mn)	2023A	2024E	2025E
Non-current assets	7,199	8,341	9,324
PPE	4,290	5,409	6,079
Right of use assets	367	811	912
Intangible assets	1,270	1,444	1,651
Equity instruments at FVOTCI	218	218	218
Deposits for acquisition of PPE	196	10	10
Other receivables	283	283	283
Other financial assets	918	826	849
Current assets	13,428	13,168	14,816
Inventories	968	2,405	2,892
Trade receivables	1,006	1,059	1,630
Prepayments and other receivables	484	620	953
Other financial assets	918	826	849
Bank balances and cash	10,052	8,258	8,491
Total assets	20,627	21,509	24,140
Current liabilities	4,477	5,718	6,939
Trade payables	373	609	862
Other payables and accrued expenses	2,468	3,065	3,686
Contract liabilities	416	817	1,156
Borrowings	1,195	1,195	1,195
Non-current liabilities	3,623	4,648	6,059
Contract liabilities	416	817	1,156
Borrowings	1,195	1,195	1,195
Government grants	510	412	461
Total liabilities	8,100	10,366	12,998
Equity	12,528	11,143	11,142
Reserves	12,528	11,143	11,142
Total liabilities and shareholders' equity	20,627	21,509	24,140

Source: Innovent, Blue Lotus (2024/4/15)

### Company Description

Innovent Biologics is a Chinese biopharma with ambitious plan to build out an R&D and commercialization platform. In 2023, product sales constituted 92% of Innovent's total revenue of Rmb6.2bn, among which Sintilimab contributed 49% of product sales while biosimilars and license-in's contributed 34% and 17%, respectively.

### Industry View

We estimate China's total biologics market to grow to US\$97bn in 2023 and will grow to US\$200 bn by the end of 2030. We expect that the global total biologics market to grow to US\$402 bn in 2023 and will reach US\$665 mn in 2030. We expect global PD-1/L1 market to grow from US\$43bn in 2023 to US\$79bn in 2030, in which China's PD-1/L1 market to grow from US\$2.7bn to US\$20bn.

### Exhibit 9. Cash flow statement

(Rmb mn)	2023A	2024E	2025E
Pre-tax profit, IFRS	(1,144)	(1,736)	(1,399)
Adjustment			
Depreciation of PPE	334	383	620
Amortization	124	147	176
Depreciation of right of assets	74	85	138
Share based compensation	574	839	1,162
Bank interest income	(192)	(183)	(167)
Interest on bank borrowings	149	181	226
Operating cash flows before movements in working capital	(80)	(283)	756
Increase in inventories	461	(1,437)	(487)
Increase in trade receivables	(431)	(53)	(570)
Increase/(decrease) in prepayments	(148)	(135)	(334)
Increase in trade payables	47	236	253
Increase in other payables	647	597	621
Increase in contract liabilities	(138)	768	678
Increase in government related income	196	(98)	49
Cash used in/generated from operations	554	(405)	966
Net cash used in operating activities	671	(405)	966
Capex	(621)	(2,098)	(1,291)
Purchase of intangible assets	(223)	(294)	(383)
Net cash used in investing activities	(651)	(2,208)	(1,507)
Interest paid	(149)	(181)	(226)
New borrowings raised and repayment made	1,000	1,000	1,000
Issuance of ordinary shares	0	0	0
Net cash used in financing activities	851	819	774
Net increase in cash	871	(1,794)	233
Cash and equivalent at beginning	9,163	10,052	8,258
Cash and equivalent at end	10,052	8,258	8,491

Source: Innovent, Blue Lotus (2024/4/15)

See the last page of the report for important disclosures

# Financial Summary – BeiGene Ltd.

Fiscal year ends December 31

## Exhibit 10. Income statement

(USD mn)	2023A	2024E	2025E
Revenue	2,459	3,087	4,770
Cost of sales	(380)	(520)	(721)
Gross profit	2,079	2,567	4,049
Gross margin	84.5%	82.5%	84.9%
Operating expense	(3,287)	(3,476)	(4,324)
Research and development costs	(1,779)	(1,868)	(2,146)
Selling, general and administrative	(1,505)	(1,605)	(2,173)
Amortization of intangible assets	(4)	(3)	(5)
Share based compensation	(368)	(629)	(954)
Operating income (GAAP)	(1,208)	(908)	(275)
Operating margin, GAAP	(49%)	(29%)	(6%)
Operating income (non-GAAP)	(840)	(280)	679
Operating margin, non-GAAP	(34%)	(9%)	14%
Loss/Profit before income tax	(900)	(908)	(275)
Profit/loss for the year from continuing operations	(1,028)	(1,736)	(1,399)
Basic shares	104	114	124
Diluted shares	114	124	134
EPADS, basic and diluted	(9.18)	(7.96)	(2.21)

Source: BeiGene, Blue Lotus (2024/4/15)

## Exhibit 11. Balance sheet

(USD mn)	2023A	2024E	2025E
Current assets	4,203	5,111	11,895
Cash and cash equivalents	3,172	2,918	8,867
Short-term investments	3	2	7
Accounts receivable	358	772	1,192
Inventories	416	520	577
Prepaid expenses	243	898	1,251
Non-current assets	1,602	2,927	3,992
Property, plant and equipment	1,324	1,969	2,682
Right-of-use assets	95	130	181
Intangible assets	57	113	99
Deferred tax assets	-	309	477
Other non-current assets	125	405	553
Total assets	5,805	8,038	15,887
Current liabilities	1,810	2,945	3,521
Accounts payable	315	563	624
Accrued expenses	694	1,792	1,996
Deferred revenue	-	463	715
R&D cost share liability	68	0	0
Short-term debt	688	-	-
Non-current liabilities	458	664	984
Long-term debt	198	-	-
Deferred income	0	463	715
R&D cost share liability	171	-	-
Share capital	0.14	0.14	0.14
Additional paid-in capital	11,599	13,604	21,240
Accumulated deficit	(7,962)	(8,871)	(9,145)
Equity	3,537	4,429	11,381
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,805	8,038	15,887

Source: BeiGene, Blue Lotus (2024/4/15)

## Company Description

BeiGene (BGNE) is one of China's oldest biotech's and is now turning itself to be a product selling biopharma. In-house developed BTK Inhibitor Zanubrutinib (BRUKINSA) and PD-1 Tislelizumab contributed 74% of revenues in 2023. License-in revenues from selling three Amgen drugs and two BMS drugs contributed 14% of revenues in 2023.

## Industry View

We estimate China's total biologics market to grow to US\$97bn in 2023 and will grow to US\$200 bn by the end of 2030. We expect that the global total biologics market to grow to US\$402 bn in 2023 and will reach US\$665 mn in 2030. We expect global PD-1/L1 market to grow from US\$43bn in 2023 to US\$79bn in 2030, in which China's PD-1/L1 market to grow from US\$2.7bn to US\$20bn.

## Exhibit 12. Cash flow statement

(USD mn)	2023A	2024E	2025E
Net loss (income), GAAP	(900)	(908)	(275)
Adjustment			
Depreciation and amortization expense	110	154	256
Share-based payment expenses	368	629	954
Acquired in-process R&D	95	96	106
Amortization of R&D cost share liability	(142)	(149)	0
Deferred income tax benefits	0	(309)	(168)
Operating cash flows	(470)	(488)	873
Increase in inventories	(134)	(104)	(56)
Increase in account receivables	(185)	(414)	(421)
Increase in prepaid expenses	(27)	(655)	(353)
Increase in account payables	20	248	61
Increase in accrued expenses	226	1,098	204
Increase in deferred income	(256)	926	505
Net cash used in operating activities	(837)	759	906
Capex	(492)	(926)	(954)
Purchase and ST investments	0	0	0
Purchase of in-process R&D	(95)	(96)	(106)
Payments for intangible assets	0	(93)	0
Other investing activities	0	0	0
Net cash used in investing activities	(586)	(1,115)	(1,060)
Proceeds and repayment from and to LT loans	0	0	0
Proceeds and repayment from and to ST loans	0	0	0
Others	100	100	6,100
Net cash used in financing activities	100	100	6,100
Cash at the beginning of the year/period	3,870	3,172	2,918
Cash at the end of the year/period	3,172	2,918	8,867

Source: BeiGene, Blue Lotus (2024/4/15)

See the last page of the report for important disclosures



## Financial Summary –JDHealth International Inc.

Fiscal year ends December 31

### Exhibit 13. Income statement

(Rmb mn)	2023A	2024E	2025E
Revenues	53,530	68,714	77,757
- Product	45,653	59,259	66,309
- Service	7,877	9,455	11,448
Cost of revenues	(41,665)	(53,685)	(60,101)
Gross profit	11,865	15,029	17,656
Gross margin	22.2%	21.9%	22.7%
- Fulfilment expenses	(5,285)	(6,415)	(7,053)
- Selling and marketing expenses	(2,655)	(2,859)	(3,076)
- Research and development expenses	(1,226)	(1,512)	(1,750)
- General and administrative expenses	(1,998)	(2,514)	(2,650)
Share-based compensation	(1,848)	(2,749)	(2,333)
Operating profit / (loss), IFRS	701	1,730	3,128
Operating margin, IFRS	1.31%	2.52%	4.02%
Operating profit / (loss), non-IFRS	2,548	4,479	5,461
Operating margin, non-IFRS	4.8%	6.5%	7.0%
Finance income	1,949	2,339	3,273
Finance costs	(9)	(10)	0
Profit/(loss) before income tax	2,693	4,255	6,684
Income tax expense	(550)	(1,064)	(1,671)
Profit/(loss) for the year/period	2,143	3,191	5,013
EPS, basic and diluted, IFRS	0.67	0.98	1.52

Source: JDH, Blue Lotus (2023/4/15)

### Exhibit 14. Balance sheet

(Rmb mn)	2023A	2024E	2025E
Cash and cash equivalents	15,037	25,380	31,307
Restricted cash	15	15	15
Prepayments and other receivables	1,914	3,366	2,176
Trade and bills receivables	348	1,363	616
Inventories	5,085	8,895	6,421
Total current asset	47,850	64,470	65,988
Property and equipment	89	342	326
Intangible assets	2,182	2,310	2,334
Investments in joint ventures	345	345	345
Total non-current assets	16,438	16,814	16,829
Total assets	64,288	81,284	82,817
Trade payable	9,660	16,648	13,139
Accrued expenses	4,086	6,496	5,685
Contract liabilities	406	1,889	680
Total current liabilities	14,585	25,128	19,598
Convertible preferred shares	-	-	-
Total equity	49,370	56,036	63,099
Total liabilities & shareholder equity	64,288	81,284	82,817

Source: JDH, Blue Lotus (2023/4/15)

### Company Description

JDHealth is the largest online healthcare platform in China by revenues. It is a wholly owned subsidiary of JD.com (~70%). Online pharmacy contributed ~100% of its revenues with the ratio of direct sales to platform GMV being ~1:1.

### Industry View

We expect China's online pharmacy (online B2C+O2O) penetration in Prescription (Rx)+OTC and VDS markets to grow from 12% and 62% in 2022 to 45% and 97%, respectively in 2030. With the market size of these two growing from Rmb212bn and Rmb208bn in 2022 to Rmb1,680 and 980bn in 2030.

### Exhibit 15. Cash flow statement

(Rmb mn)	2023A	2024E	2025E
Profit/(loss) for the year/period	2,143	3,191	5,013
Income tax expense	550	1,064	1,671
Share-based payments expenses	1,848	2,749	2,333
Depreciation and amortization	266	287	314
Finance income	(1,949)	(2,339)	(3,273)
Changes in working capital:	457	4,604	(1,121)
Net cash flows generated from/(used in) operating activities	4,670	10,645	6,256
Purchases of property and equipment	(45)	(58)	(64)
Purchases of intangible assets	(134)	(172)	(194)
Payments for right-of-use assets	(49)	(63)	(70)
Net cash flows used in investing activities	(229)	(292)	(329)
Net cash (used in)/ generated from financing activities	(9)	(10)	-
Net (decrease)/increase in cash and cash equivalents	4,432	10,343	5,927
Balance b/f	18,718	15,037	25,380
Balance c/f	15,037	25,380	31,307

Source: JDH, Blue Lotus (2023/4/15)

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## Bottoming fishing, post PD-1 and biosimilars

- PD-1(L1) market has stabilized above our expectations:** In November 2022, we projected China's PD-1(L1) market to grow 8.1% YoY in 2023 (<[A revival of domestic PD-1\(L1\) is in order](#)>, November 2, 2022) after a decline of 1.5% YoY in 2022 due to NDRL and price war. In fact, the market grew by 17.1% to Rmb19.0bn according to our own tally, with remarkably acceleration in 2H23 (Exhibit 16). Domestic PD-1(L1)'s of Tislelizumab (BeiGene), Sintilimab (Innovent), Cadonilimab (Akeso), Serplulimab (Henlius) and Envafohimab (LEPU) gained at the expense of overseas' Opdivo (BMS), Imfinzi (AstraZeneca) and Tecentriq (Roche). Keytruda managed to keep its market share intact while consolidation also took place within domestic as Camrelizumab (Hengrui) and Penpulimab (Akeso) lost shares for various reasons. In 2024, we expect PD-1(L1) market to grow 20% with more indication approvals and more NDRL entries, especially for the two later comers with good therapeutic results: Cadonilimab and Serplulimab, which so far are ex-NDRL;
- On-label use and NDRL will drive the growth of two later-comers:** Unlike 2023, market share of the PD-1 (L1) market will like stabilize with further consolidation. Our expectation for Cadonilimab and Serplulimab revenue growth are in the 20-40% range. The two's rapid revenue growth in the ex-hospital channel (Exhibit 16) suggested that off-label use have already accelerated these two drugs' actual usage ahead of regulatory approval. But further growth might come from NDRL inclusion;
- Post PD-1(L1) growth starts to emerge:** For most Chinese biotech's their next pipeline stop after PD-1(L1) is autoimmune, followed by metabolic and ophthalmology. RemeGen is the undisputed leader in autoimmune with its Telitacicept (RC18), which has already been selling since 2021. On April 10<sup>th</sup>, 2024, Vertex (VRTX US, NR) acquired Alpine (ALPN US, NR) which develops a similar compound as Telitacicept for US\$4.9bn. Zai Lab's early commercialization success with Efgartigimod (Argenx) also showed promise of an innovative autoimmune drug in China. Judging from RC18 and Efgartigimod's success, we believe focusing on large, underserved therapeutic area is the recipe for success. We identify (1) **KeyMed's CM310 (IL-4R)**, which has already submitted for NDA in December 2023 for Atopic Dermatitis and Asthma; (2) **Akeso's Gumokimab (AK111) (IL-17) and Ebdarokimab (AK101)(IL-12/23)**, both of which have already submitted for NDA in August 2023 for Plaque Psoriasis, (3) **Innovent's IBI112 (IL-23p19)**, which also treats Plaque Psoriasis and started Phase III on February 2023, as the most likely to succeed. We note that Psoriasis is a crowded market with many imported drugs and biosimilars. KeyMed is founded by the founding scientist of JUNSHI with an optimized pipeline;
- GIP/GLP-1/GCGR receptor agonists are hastily assembled with plenty of biosimilar and next generation competitions:** Gastric Inhibitory Polypeptide (GIP), Glucagon-like Peptide-1 (GLP-1) and Glucagon Receptor (GCGR) seldom show up on Chinese biotech's pipelines, except for Innovent, which received from Eli Lilly Mazdutide (IBI362) as part of the broad collaboration. Mazdutide is a sister compound of Eli Lilly's lead candidate Tirzepatide, of which Lilly prioritized to Innovent in a China-only licensing deal in 2019. But competition is heating up. In July 2023, Chinese biosimilar maker Huadong Pharm (000963 CH, NR) received NDA for patent-expired Liraglutide (Novo Nordisk) biosimilar. Huadong Pharma also filed patent

*China's PD-1(L1) market has stabilized which provides drug makers with cash returns to fund pipelines. Biggest beneficiaries are Innovent, Akeso and Henlius.*

*Autoimmune already has proven success (RemeGen's RC18 and Zai Lab's Efgartigimod) and new drugs from Akeso, KeyMed and Innovent might further add fuel to the fire.*

*KeyMed and Akeso are best positioned for autoimmune drugs in 2024.*

*Despite Innovent having a prized asset in GIP/GLP-1/GCGR, it will face fierce competition from biosimilars and next generations.*

invalidation request for patent-expiring (2026) Semaglutide (Novo Nordisk) and received favourable rulings in Chinese court. In September 2023, Huadong Pharma started Phase III trial of its Semaglutide biosimilar and expect to launch in 2025-26. Further, new generation of GIP/GLP/GCGR receptor agonists are expected to hit the market with better administrations (Exhibit 17). Both Eli Lilly and Novo Nordisk are readying their next generations. In 2023, Semaglutide and Liraglutide sold Rmb4.8bn and Rmb1.5bn, in China, but on diabetes only, with obesity indication expected to be approved in 2024. Because of GIP/GLP/GCGR's high gross margin, we do expect Innovent to price Mazdutide aggressively to capture the market but believe the life span of this drug might be short. We expect Mazdutide to reach sales of Rmb1.1bn in 2025, reaching peak of Rmb1.3bn in 2027;

*Life span of Mazdutide might be short because Innovent received the China rights in an act of serendipity, in our view.*

● **RemeGen and Innovent have two similar and maybe equally promising ophthalmology drugs:**

Ophthalmology is another post-PD-1(L1) therapeutic area pursued by a small group of Chinese biotech's. RemeGen and Innovent are the two leading ones as their founders, who used to be colleagues in a US biotech startup, owned IP (Conbercept) before founding RemeGen and Innovent (Exhibit 18). As a result, we believe both will be me-better with overseas licensing potential. Both RemeGen's RC28 and Innovent's IBI302 are modification of Regeneron's Aflibercept, which is a VEGF inhibitor launched in 2011. Based on respective clinical data, both RC28 and IBI302 have launched head-to-head clinical trials against Aflibercept, which generated sales of US\$5.9bn in 2023. Innovent further added three more ophthalmology candidates, two of which are modified version of IBI302 to ensure success. Globally, however, Roche (Genentech), already launched a similar me-better drug called Faricimab in 2022 and surpassed US\$2bn in revenues in 2023. In December 2023, Faricimab received NMPA approval in China for diabetic macular edema (DME). RC28 and IBI302 will also have to compete against biosimilars of Aflibercept, which won approval also in December 2023. Among the two, RC28 is ahead in schedule and has broader indications than IBI302, in our opinion;

*Both RC28 and IBI302 were me-better versions of Regeneron's Aflibercept treating aged-related-macular degeneration (AMD) and are similar to Roche's Faricimab.*

● **Biosimilar is a realistic strategy in tackling China's low spending:** We were once skeptical of biosimilars because of its propensity to price competition but we are now more receptive given it might be indispensable for the low-spending China market. China's NDRL significantly shortened the profit window of innovative drugs, rendering the development of innovative drugs to resemble that of biosimilars. But in reality, very few succeed in biosimilars. Bio-Thera (688177 CH), for example, is a cash strapped biosimilar/biotech that we do not recommend. Further, after having a biosimilar business contributing 32%, 44% and 33% of its product revenues in 2021-23, Innovent is leaving biosimilars as its innovative pipeline coming off age. We are ambivalent on Innovent's strategy as its current pipeline lacks quality, in our opinion;

*There is sound business logic for biosimilars in China. But in reality very few succeed and Innovent is abandoning it.*

● **Biosimilar requires global intelligence, speed, sales and R&D:** To date, the most successful biosimilar vendor is Henlius, a subsidiary of Fosun Pharma (2196 HK, NR), one of China's top drug distributors and global collaborators. Thanks to Fosun, Henlius has a great grasp of global regulatory landscapes and distributes its biosimilars to many small countries. Henlius started off early and carried out overseas clinical trials to establish credibility. Its head-to-head trial against Roche's Trastuzumab (*Heceptin*) landed it applause and credibility both in and out of China. In 2023, Heliu recognized Rmb2.64bn from HANQUYOU (Trastuzumab biosimilar) in China

*Henlius benefits from its parent's connections, distribution and R&D in becoming the No.1 biosimilar player in China.*

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sales, up 55% YoY. But, a critical difference between innovative and biosimilar is the ability of the former to have license outs. Developing innovative drug can have multiple “exits”, multiple drug candidates and an accumulative knowledge base, of which biosimilars don’t have. This is why successful biosimilar companies are also trying to be biotech’s. Henlius’s first innovative drug Serplulimab (PD-L1) is late to the market but has great clinical data, achieving sales of Rmb1.12bn, up 4x YoY in 2023. In PD-1 (L1)’s off-hospital market, Henlius’s Serplulimab and Akeso’s Cadonilimab are quickly gaining market share (Exhibit 16);

- Centralized procurement is beneficial to large device companies but MicroPort is burdened by overinvestment:** MicroPort (853 HK, NR) also suffered from a cash crunch. It lost US\$649mn in 2023 with only US\$441mn net cash on its balance sheet. On April 5, 2024, MicroPort reached a convertible renewal agreement with its 2026 convertible bond holders and promised a company level breakeven by 2026. Generally speaking, centralized procurement by Chinese healthcare complex is beneficial to leading players like MicroPort as their scale economies can afford a low cost to squeeze the smaller players out with larger sized multinationals typically sitting on the sidelines. Yet in MicroPort’s case it has embarked on a broad expansion during bull markets, now with R&D over-spread. Cut must happen on long haul R&D programs. MicroPort MedBot (2253 HK, NR) is in particularly perilous position because it faces a well-entrenched global competitor Intuitive Surgical (ISRG US, NR) and its dominant local partner Fosun Pharma. MedBot lost Rmb1bn in 2023 with only Rmb333mn net cash on its book. In October 2023, Intuitive and Fosun launched a joint headquarter in Shanghai and planed to make Intuitive’s 2<sup>nd</sup> latest product *Da Vinci Xi* locally. In January 2024, NMPA approved Intuitive’s 3<sup>rd</sup> latest single port surgical robot, evening up the generational gap between Intuitive and Chinese startups. In March 2024, US FDA approved Intuitive’s newest *Da Vinci 5*. Intuitive’s localization drive makes government support less likely for MicroPort MedBot. We had a SELL rating on MedBot before terminating it for coverage;
- The dilemma in surgical robots highlights the perils of domestic substitution:** Why has surgical robots failed while EV has succeeded? We believe there are three reasons: (1) the market of surgical robots is too small and is not strategic for state involvement, (2) incumbent’s biggest barrier in procedures, protocols and user habits coincides with surgery’s risk averse nature with minimum tolerance for error, (3) lack of supply chain localization deprives the challengers the choice of using price as a competitive weapon. We see the same issue with me-too or me-better innovative drug makers. We notice the rapid unit growth in surgical robots in China occurs in new areas like neurosurgery and more error-tolerant fields like laparoscopy. But these areas tend to be crowded with price competition. As shown in our July 2023 report <Domestic substitution takes nascent root in med-bots>, challenging well-entrenched competitor isn’t a profitable endeavor;
- JDHealth’s product gross margin dipped again in C2H23:** After spiking up in C1H23 after treading down for five interim periods, JDH’s product gross margin declined YoY and HoH again, which highlighted difficulty JDH faces to maintain gross margin as a distributor facing China’s state dominated healthcare complex. In the meantime, fulfilment cost rose consecutively (Exhibit 19), highlight the cost of doing business in China. We thus cut JDH’s target price from HK\$52 to HK\$42;

*Medical device also faces a collective bargaining issue from the government. Large players can gain shares by squeezing out the small players. But MicroPort has extended itself too thin that any cut will materially impact its R&D pipeline. MedBot is likely the casualty.*

*Government subsidy is needed to challenge Intuitive Surgical but we think it is not forthcoming.*

*Even though we endorse JDH’s dominant position and solid execution, we highlighted its margin dilemma within China’s state-dominated healthcare system. Gross margin trended down again.*

- **Other worth noting healthcare stocks:** (1) LEPU Biopharma achieved operating breakeven on a license-out deal with AstraZeneca, partnering with KeyMed, but the company has Rmb(268mn) in net cash. Parent LEPU MedTech (300003 CH, NR) is a leading medical device company in China. We believe LEPU can resolve its cash crunch, (2) HutchMed is an old Chinese biopharma with a renewed pipeline. It has licensed out to AstraZeneca in 2011, Eli Lilly in 2020 and Takeda in 2023. Its valuation of US\$3bn is reasonable, in our view, comparing to Innovent (US\$7.7bn), BeiGene (US\$15bn), Baili Pharma (US\$7.2bn) and Legend (US\$9.6bn);
- **Leverage Chinese healthcare as a global deflator and a massive domestic market:** We suggest investors to zero in on these two key trends but be aware of the dominant power of the state healthcare complex and the underfunded situation of Chinese state health insurance scheme (See our report <[A global deflation force but in its first inning](#)> in October 2022). We like JDH because of its rising market share but still think its sweet spot won't arrive until it can cultivate the overseas market. We like Akeso, RemeGen and BeiGene for their R&D competency to export me-best, to me-better medicines under global pricing. We dislike Zai Lab, Innovent and JUNSHI because their me-too and sometime me-better pipelines can only subject themselves to me-too paying abilities. Given the risk involved in investing in biotech, we are mindful of valuations, which is why we had a SELL on Legend Biotech (but since discontinued coverage). We notice that Chinese biotech doesn't exist until 2018 which means a high failure rate will persist for a long time but new companies will sprout up. Over the long run, China's competent supply and massive domestic market should ensure a globally competitive healthcare industry.

*We invest by focusing on China's competent supply and massive demand in the global healthcare value chain.*

**Exhibit 16. PD-1(L1) market performance 2023**

Rmb mn	Tisleli- zumab	Keytruda	Sinti- limab	Camreli- zumab	Cadoni- limab	Serplu- limab	Tecen- trig	Toripa- limab	Opdivo	Imfinzi	Penpu- limab	Envafo- limab	Total
	BeiGene	Merck	Innovent	Hengrui	Akeso	Henlius	Roche	JUNSHI	BMS	AstraZeneca	Akeso	LEPU	
Hospital	2,383	1,430	1,931	1,421	171	90	396	486	315	261	45	45	8,972
Ex-hospital	1,414	1,681	860	902	1,187	1,030	705	433	577	513	133	609	10,046
Total 2023	3,797	3,111	2,791	2,323	1,358	1,120	1,101	919	892	774	178	654	<b>19,018</b>
Total 2022	2,830	2,650	2,200	2,500	546	339	1,150	802	1,050	1,100	558	500	<b>16,225</b>
Off-label ratio	37%	54%	31%	39%	<b>87%</b>	<b>92%</b>	64%	47%	65%	66%	75%	93%	53%
Market share 23	20%	16%	15%	12%	7.1%	5.9%	5.8%	4.8%	4.7%	4.1%	0.9%	3.4%	
Market share 22	17%	16%	14%	15%	3.4%	2.1%	7.1%	4.9%	6.5%	6.8%	3.4%	3.1%	

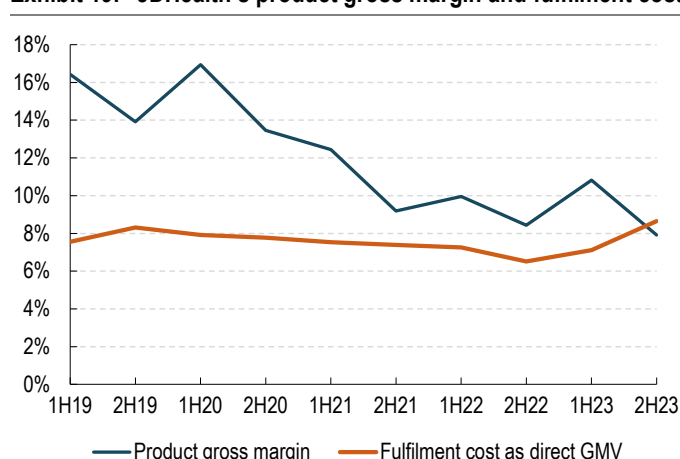
Source: IQIVA, Blue Lotus, (2024/4/15)

**Exhibit 17. Next generation of obesity drugs worldwide**

Drug name	Company	Phase	Administrative	Expected completion
<b>Mazdutide</b>	<b>Innovent/Eli Lilly</b>	<b>3</b>	<b>SC, OW</b>	<b>Apr. 2024</b>
Orforglipron	Eli Lilly	3	PO, OD	Sept. 2027
CagriSema	Novo Nordisk	3	SC, OW	Oct. 2026
Survodutide	Boehringer Ingelheim	3	SC, OW	Completed
Retatrutide	Eli Lilly	3	SC, OW	May, 2026
Dapigliutide	Zealand	2	SC, OW	Aug., 2024
S-309309	Shionogi	2	PO, OD	May, 2024

Source: Nature, Blue Lotus (2023/9/15). SC=Subcutaneous, OW=Once Weekly, PO=Oral, OD=Once Daily

**Exhibit 19. JDHealth's product gross margin and fulfilment cost**



Source: JDHealth, Blue Lotus (2023/9/15).

**Exhibit 18. RemeGen and Innovent's ophthalmology pipeline**

	Company	Target	Clinical
RC28	RemeGen	VEGF/FGF	III
IBI302	Innovent	VEGF/C3	III
IBI311	Innovent	IGF-1R	III
IBI324	Innovent	VEGF-A/ANG2	I
IBI333	Innovent	VEGF-A/VEGF-C	I
Faricimab	Roche/Genentech	VEGF-A/ANG2	NDA (2022)
Aflibercept	Regeneron	VEGF	NDA (2011)

Source: Company data, Blue Lotus (2023/9/15)

**Exhibit 20. China surgical robots in sales**

(Rmb mn)	1H22	2H22	1H23
Orthopedic	51	190	141
Laparoscopic	182	276	431
Neurosurgical	6.0	43	61
Other (dental, etc.)	0	1.5	0
<b>Total</b>	<b>239</b>	<b>510</b>	<b>634</b>
<b>Orthopaedic</b>			
TINAVI (天智航)	51	97	95
Stryke (史赛克)	0	43	38
Jmed (键嘉)	0	22	8.0
MedBot (微创)	0	10	0
Zimmer Biomet (捷迈邦美)	0	8.0	0
Other	0	9.7	0
<b>Laparoscopic</b>			
Intuitive	182	214	382
MedBot	0	48	30
Edge (精锋)	0	14	10
Sagebot (思哲睿-康多)	0	0	9.0
<b>Neurosurgical</b>			
Sinovation(华科精准)	6.0	35	34
RemeBot (柏惠维康-睿米)	0	7.3	24
Other	0	0	3.6
<b>Market shares</b>			
Intuit in laparoscopic	100%	78%	89%
TINAVI in orthopaedic	100%	51%	67%
Sinovation in neurosurgical	100%	83%	55%
Laparoscopic in total	76%	54%	68%
Orthopaedic in total	21%	37%	22%
Neurosurgical in total	2.5%	8.3%	10%

Source: YYXQL, Blue Lotus (2023/9/15)

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